

Report On Internal Control and On Compliance and Other Matters City of Philadelphia Fiscal Year 2019



City Controller
Rebecca Rhynhart
July 16, 2020



CITY OF PHILADELPHIA

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REBECCA RHYNHART
City Controller

CHRISTY BRADY
Deputy City Controller

Thursday, July 16, 2020

Honorable James F. Kenney, Mayor
City of Philadelphia
City Hall, Room 215
Philadelphia, PA 19107

Dear Mayor Kenney,

Please find the Office of the City Controller's annual report on internal control and on compliance and other matters for fiscal year 2019.

Our office found that the city's fiscal year 2019 financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. However, the audit procedures identified three material weaknesses and seven significant deficiencies, as well as other conditions, in the city's internal control over financial reporting. Many of these findings have been reported on year after year with minimal to no remediation. The findings in this report are serious and demand a comprehensive plan to address them. In terms of internal control over financial reporting, the City of Philadelphia continues to be, by far, the worst of the top ten largest cities in the country.

Specifically, Finance staff did not provide the preliminary Schedule of Expenditures of Federal Awards (SEFA) for FY19 for audit until three days before it was due for submission to the Federal Audit Clearinghouse. As a result, the city did not submit a Single Audit reporting package by the federally required deadline. The city also missed the submission deadline in the previous fiscal year. The city's continued failure to meet this filing requirement could affect future federal funding. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions. It is worth noting that due to the late submission of the SEFA, my office could not follow up on an FY18 prior year finding regarding the accuracy of the submitted SEFA. Additionally, I want to draw your attention to the fact that three findings in this year's report, including one material weakness and two significant deficiencies, relate to the OnePhilly system.

Our office recommends several changes to the processes in place to improve the internal control over financial reporting. The findings and recommendations contained in the report were discussed with management at an exit conference, and we included management's written response to the findings and recommendations as part of the report. *Government Auditing Standards* state that auditors should evaluate the validity of the auditee's response to a report's findings. Auditors are required to report instances in which the

auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendation. Our comments to management's response, when deemed necessary per these auditing standards, are also included in the report.

We would like to express our thanks to the management and staff of the City of Philadelphia for their cooperation as we conducted our audit.

Mayor Kenney - I request that you prioritize improving internal control over financial reporting and financial management with urgency. Focus on stabilizing OnePhilly as soon as possible because we will be reviewing it again. Ensure that the SEFA is completed and submitted accurately and most importantly with enough time for our auditors to review it – otherwise, you are risking the city's much needed federal grant monies. In this difficult time, good financial management and strong controls should be a top priority to ensure not one dollar is wasted or misspent. Taxpayers deserve your action, not a defensive reaction and a continuation of the status quo.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rebecca Rhynhart', with a stylized, cursive script.

Rebecca Rhynhart
City Controller

CC: Honorable Darrell L. Clarke, President, City Council
Honorable Members of City Council
Rob Dubow, Finance Director
James Engler, Chief of Staff, Office of the Mayor
Members of the Mayor's Cabinet



CITY OF PHILADELPHIA

FISCAL YEAR 2019

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

EXECUTIVE SUMMARY

Why The Controller's Office Conducted the Audit

In accordance with the Philadelphia Home Rule Charter, the Office of the City Controller audited the City of Philadelphia's (city) basic financial statements as of and for the fiscal year ended June 30, 2019, issued as part of the city's Comprehensive Annual Financial Report (CAFR). To help plan and perform the audit, which occurs annually, the Controller's Office reviews the city's internal control over financial reporting and examines the city's compliance with certain provisions of laws, regulations, contracts and grant agreements to identify any noncompliance that could have a direct and material effect on financial statement amounts.

The Controller's Office reports on any identified significant deficiencies and material weaknesses in the city's internal controls. Significant deficiencies are less severe than material weaknesses, yet important enough to merit attention by those charged with governance. Material weaknesses identified in financial reporting result in a reasonable possibility that a material misstatement of the city's financial statements may not be prevented or detected and corrected on a timely basis. If a material misstatement on the city's financial statements occurred, the statements would be an ineffective tool for assessing the city's financial health.

FY19 Report Findings

While the Controller's Office found that the city's financial statements were presented fairly, in all material respects, our review identified three material weaknesses and seven significant deficiencies in the city's internal controls over financial reporting. The fiscal year 2019 report on internal control and on compliance and other matters discusses the material weaknesses and significant deficiencies in depth. Key findings include:

- **Material Weakness: Inadequate staffing levels, lack of technological investment, and insufficient oversight have led to undetected material misstatements.** Our audit disclosed a number of conditions, which collectively the Controller's Office considers to be a material weakness, that impede the ability of the Finance Office accountants to prepare a timely, accurate, and completed CAFR without significant adjustments recommended by the City Controller's audit staff. The Controller's Office identified accounting errors totaling \$213 million during the preparation of the city's FY19 CAFR. The Controller's Office proposed adjustments to correct the \$213 million in errors, and the Finance Office booked most, but not all, of the adjustments.
- **Material Weakness: Untimely preparation of the Schedule of Expenditures of Federal Awards (SEFA) resulted in the late submission of the Single Audit reporting package to the Federal Audit Clearinghouse.** The Finance Office's Grants Accounting and Administrative Unit (GAAU), which is responsible for preparing the SEFA, did not prepare and provide for audit a preliminary SEFA for the fiscal year ending June 30, 2019 until March 28, 2020 – a mere three days before the single audit submission deadline of March 31, 2020. As a result, the city did not submit a Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions. The city's continued failure to meet this filing requirement could affect future federal funding. Additionally, the Controller's Office was unable to follow up on a FY18 prior year finding regarding the accuracy of the SEFA due to its late submission.

(Continued on next page)

- **Material Weakness: Breakdowns in the functionality and application IT controls of the OnePhilly system increase the risk for material payroll errors.** The OnePhilly system replaced the Human Resources and Benefits legacy systems in December 2018 and the city's Payroll and Time and Attendance legacy systems in March 2019. The Controller's Office engaged an independent accounting firm to perform an assessment of the IT application and general controls related to the new OnePhilly system. The review found multiple breakdowns in the functionality and application controls of the OnePhilly system. As a result, there was a potential for the payroll expense and other related liability accounts to be materially misstated in the CAFR. Additionally, individual employee pay may be inaccurate and/or unauthorized. Many of the conditions identified appeared to have been in existence from the time OnePhilly launched, meaning the potential cause may have occurred prior to the system's Go-Live date.

What The Controller's Office Recommends

The Controller's Office developed a number of recommendations to address the findings in this report. Some of the more significant recommendations to the above findings are noted below.

To improve controls over the preparation and review of the city's CAFR, the Finance Office should follow through with its plan to use an accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the CAFR and the development of a CAFR review checklist for the full accrual financial statements. While we support Finance's use of the accounting firm as a short-term remedy, the appropriate long-term solution is for Finance Office management to either hire more accountants or invest in a new financial reporting system to reduce the current labor-intensive procedures needed to prepare the CAFR, which include using a combination of Excel, Word, and Lotus 1-2-3 files.

To improve the timeliness of the SEFA, the Finance Office's GAAU should allocate adequate resources to ensure the timely preparation and submission of the SEFA for audit purposes. GAAU should also proactively enforce the existing policies and procedures requiring departments to complete expenditure reconciliations by the due date.

To improve the OnePhilly system's functionality and application IT controls, Finance Office management and the OnePhilly team should evaluate the sufficiency of resources dedicated to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system.

Additional recommendations developed by the Controller's Office can be found in the body of this report.

Corrective Action - Prior Year Findings

During FY19, auditors identified improvement for several prior year findings. Notably, the Revenue Department made progress addressing its adjustment review process for tax accounts, resolving this finding. Other improvements noted for prior year findings can be found in the corrective action section of the report.

**AUDITOR'S REPORT ON INTERNAL
CONTROL AND ON COMPLIANCE
AND OTHER MATTERS**

CITY OF PHILADELPHIA

FISCAL 2019



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City Controller

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Deputy City Controller

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Honorable Members
of the Council of the City of Philadelphia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Philadelphia, Pennsylvania, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Philadelphia, Pennsylvania's basic financial statements, and have issued our report thereon dated February 25, 2020. Our report includes a reference to other auditors who audited the financial statements of the following entities, as described in our report on the City of Philadelphia, Pennsylvania's financial statements.

Primary Government

Municipal Pension Fund
Philadelphia Gas Works Retirement Reserve Fund
Parks and Recreation Departmental and Permanent Funds
Philadelphia Municipal Authority
Pennsylvania Intergovernmental Cooperation Authority

Component Units

Community College of Philadelphia
Philadelphia Parking Authority
Philadelphia Redevelopment Authority
Community Behavioral Health
Philadelphia Authority for Industrial Development
Philadelphia Gas Works
Philadelphia Housing Authority

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the

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Philadelphia Parking Authority were not audited in accordance with *Government Auditing Standards*. Also, the reported amounts for the Philadelphia Housing Authority (PHA) include PHA's discretely presented component units whose financial statements (except for St. Ignatius Senior Housing I, L.P., St. Ignatius Senior Housing II, L.P., St. Francis Villa Senior Housing, L.P., 1952 Allegheny Associates Limited Partnership, Spring Garden Development Associates, L.P., Uni-Penn Housing Partnership II, and Mantua Phase II, L.P.) were not audited in accordance with *Government Auditing Standards*.

We have also audited the basic financial statements of the School District of Philadelphia, a component unit of the City of Philadelphia, in accordance with *Government Auditing Standards* and issued a separate report on the School District's internal control over financial reporting and on compliance and other matters.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Philadelphia, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Philadelphia, Pennsylvania's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying report, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying report as items 2019-001 to 2019-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying report as items 2019-004 to 2019-010 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Philadelphia, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

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determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Conditions

We noted certain other conditions that represent deficiencies in internal control described in the accompanying report as items 2019-011 to 2019-012. Also, during the following engagements, we identified other internal control and compliance deficiencies which were communicated to management in separate reports: our annual examination of the financial affairs of city departments; an assessment of the information technology general controls of the city's Office of Innovation and Technology conducted by an independent accounting firm engaged by us; and an evaluation of the information technology application and general controls of the city's Oracle eBusiness Suite/PeopleSoft Workforce Management System (the OnePhilly System) conducted by an independent accounting firm engaged by us.

City of Philadelphia, Pennsylvania's Response to Findings

The City of Philadelphia, Pennsylvania's written response to the findings identified in our audit is included as part of this report. The City of Philadelphia, Pennsylvania's written response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. We have also included our comments to the City of Philadelphia, Pennsylvania's responses that we believe do not adequately address our findings and recommendations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
February 25, 2020

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MATERIAL WEAKNESSES

2019-001 INADEQUATE STAFFING LEVELS, LACK OF TECHNOLOGICAL INVESTMENT AND INSUFFICIENT OVERSIGHT LED TO UNDETECTED MATERIAL MISSTATEMENTS

Philadelphia's Home Rule Charter places responsibility for the City of Philadelphia's (city's) accounting and financial reporting functions with the Office of the Director of Finance (Finance Office). In that capacity, the Finance Office prepares the city's Comprehensive Annual Financial Report (CAFR). To complete these tasks, Finance Office accountants collect, analyze, and summarize enormous amounts of financial and grant-related data, as well as other information obtained from the city's accounting system (FAMIS¹), numerous city agencies, and assorted quasi-government units, such as the Philadelphia Gas Works and the Philadelphia Redevelopment Authority.² Our current audit again disclosed a number of conditions, which collectively we consider to be a material weakness, that impede the ability of Finance Office accountants to prepare a timely, accurate, and completed CAFR without significant adjustments recommended by the City Controller's audit staff. More specifically, we observed that:

- Staff reductions in the Finance Office, as well as a lack of a comprehensive financial reporting system, have compromised the timely and accurate preparation of the CAFR;
- While the accuracy of the Aviation Fund financial statements was improved, the Division of Aviation's (DOA's) late submission of its financial statements and compilation delayed preparation and audit of the CAFR; and
- Late receipt of component unit financial reports hampered CAFR preparation.

Each of these conditions is discussed in more detail below.

Staff Shortages Along with the Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Condition: Errors totaling \$213 million were not detected by Finance Office accountants during preparation of the city's fiscal year 2019 CAFR.

Criteria: Financial statements should be prepared to communicate relevant and reliable information. Accordingly, the statements should be free of all errors that might affect a reader's ability to make confident and informed decisions.

Effect: Because Finance Office accountants corrected the most significant of the errors we identified, the city's publicly issued fiscal year 2019 CAFR can be relied upon for informative decision making.

Cause: Ongoing inadequate staffing, along with the lack of a comprehensive financial reporting system, have hindered the ability of the Finance Office to produce a timely and accurate CAFR for audit. More specifically:

¹Financial Accounting and Management Information System

²These quasi-government units are considered component units for purposes of the city's CAFR.

- The Finance Office has continued to operate with a reduced staff size. Since fiscal year 2000, the number of Finance Office accountants has declined by over 23 percent (from 64 full-time employees in fiscal year 2000 to 49 in fiscal year 2019). While the number of accountants increased by three in comparison to the fiscal year 2018 amount, the current staff size is still not the level of hiring needed to address this problem. Inadequate staff size has resulted in significant and complex parts of the CAFR, such as the preparation of the full accrual government-wide financial statements, being performed by Finance Office accounting management. These factors have made the task of completing the CAFR more difficult and compromised the ability of Finance Office management to perform adequate reviews of the financial statements and related financial disclosures.
- Accountants in the Finance Office lacked a comprehensive financial reporting system to prepare the CAFR. Instead, accountants produce the CAFR using numerous Excel, Lotus 1-2-3 (a program that has been discontinued and unsupported since 2014), and Word files with various links between the files. Using multiple linked files creates a cumbersome process which can adversely affect the accuracy and completeness of the CAFR. While several Lotus 1-2-3 files previously used for CAFR preparation were converted to Excel for the fiscal 2019 CAFR, the Finance Office still used Lotus 1-2-3 to produce certain capital asset amounts.

During the current audit, we observed that the Finance Office continued to work with the accounting firm they hired in the prior year to help with the preparation and review of the CAFR. Although the initial plan (as it had also been for the fiscal year 2017 and 2018 CAFR) was for the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the financial statements, the Finance Office was again unable to implement that plan for the fiscal year 2019 CAFR. However, the accounting firm assisted the Finance Office with the preparation of a new CAFR review checklist which provided accountants with detailed instructions for verifying the accuracy and completeness of the fund financial statements. We noted the checklist did not yet include guidelines for review of the full accrual government-wide financial statements. Also, the accounting firm researched the potential impact recent Government Accounting Standards Board (GASB) Statements would have on the city's CAFR.

Despite the improvement noted, we still found that the Finance Office failed to detect significant errors in the CAFR submitted for audit and did not provide finalized footnotes until very late in the audit process. Examples of undetected errors included:

- The General Fund's unassigned fund balance was overstated by \$120.9 million because the Finance Office misclassified the unobligated Philadelphia Beverage Tax (PBT) monies, for which the city administration has clearly expressed intent that those funds be used for the expansion of Pre-K programming, Community Schools, and debt service on Rebuild bonds. According to GASB guidelines, funds constrained by a government's intent to use them for a specific purpose should be classified as assigned fund balance. After we raised concerns that the unobligated PBT monies met the GASB guidelines for assigned fund balance, Finance Office accountants reclassified the \$120.9 million of unobligated PBT monies as assigned fund balance.

- Our audit testing found a total of \$30.2 million of unrecorded accounts payable for the General Fund, HealthChoices Behavioral Health Fund, Grants Revenue Fund, and Water Fund, which was not detected because of weaknesses in the payables identification and recording process, discussed in more detail on pages 20 to 22 of this report.

An example of an untimely provided footnote was the disclosure for enterprise funds capital asset activity, for which we did not receive a substantially completed version for audit until February 6, 2020, less than three weeks before we issued the audit opinion.

Recommendations: Without sufficient accounting staff and a comprehensive financial reporting system to prepare and review information needed for the CAFR, the risk increases that significant errors can occur and not be timely discovered and corrected. We continue to recommend that Finance Office management either hire more accountants, or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's CAFR [50107.01]. The Finance Office, in conjunction with the Office of the Chief Administrative Officer and Office of Innovation and Technology (OIT), have begun a project which is expected to modernize core financial, grants, procurement, and supply chain business processes, known as the Optimize Procurement and Accounting Logistics Enterprise Resource Planning (OPAL ERP) project. The OPAL ERP project is expected to replace financial accounting systems such as FAMIS. As part of the OPAL ERP project, Finance Office management should include a comprehensive financial reporting system for CAFR preparation.

In the meantime, we recommend that, for the fiscal year 2020 CAFR, management follow through with its plan to use the accounting firm to assist with the preparation of a compilation package with detailed documentation supporting the CAFR [500118.01]. Additionally, Finance Office accountants should utilize the accounting firm to assist with developing a CAFR review checklist for the full accrual government-wide financial statements [500119.01]. While we support the Finance Office's hiring of the accounting firm as a short-term remedy to improve the CAFR preparation and review process, we believe the appropriate long-term solution is to either hire more accountants or invest in a comprehensive financial reporting system, as recommended above.

While Improvement Was Noted, Late Submission of Aviation Fund Financial Statements Delayed Preparation and Audit of CAFR

Condition: In the prior audit, we reported that the DOA's management did not perform an adequate review of the Aviation Fund financial statements before submitting them to the Finance Office for inclusion in the city's CAFR. Consequently, management failed to detect material errors totaling \$122.4 million in the Aviation Fund financial statements, \$66.1 million of which involved calculation errors on the Statement of Cash Flows. During the current audit, we found significant improvement in this condition as a result of the DOA's corrective actions. DOA management hired a new consultant to assist with preparation of the financial statements and supporting compilation package. The new consultant was an accounting firm with experience in preparing the Water Fund financial statements. We observed that the compilation package provided detailed support for the statements and included a financial statement review checklist that documented the procedures performed and contained evidence of review by the DOA's deputy chief financial officer (CFO). While the review checklist did not include procedures for

the Statement of Cash Flows, we noted that the compilation contained a more detailed supporting calculation for this statement. The compilation also included a certification signed by the deputy CFO, who affirmed that she had reviewed the financial statements and was satisfied that they met acceptable standards of presentation and disclosure. Our testing of the fiscal year 2019 Aviation Fund financial statements found no material misstatements. Therefore, we believe that sufficient improvement has been made to consider this condition resolved [500118.02, 500118.03].

Despite this improvement, the Aviation Fund financial statements and supporting compilation were again completed very late. Although the DOA provided us with various revenue, accounts payable, and capital asset data during November and December 2019 so audit testing could proceed, the DOA did not submit its completed financial statements and compilation to the Finance Office until January 6, 2020, which was 11 days later than the previous year. While the DOA submitted a draft version of the financial statements to the Finance Office on October 17, 2019, those statements were very preliminary with various open items. The DOA made significant financial statement changes between the October 17, 2019 and January 6, 2020 versions.

Criteria: In preparing the city's CAFR, Finance Office accountants must collect, analyze, and summarize financial information from numerous sources, including the DOA. It is essential that the DOA complete and submit the Aviation Fund financial statements and compilation to the Finance Office at an earlier date, so they have adequate time to review and incorporate those statements into the CAFR.

Effect: The DOA's failure to provide the Aviation Fund financial statements and compilation on time can result in delays in timely completing the financial reporting and auditing processes for the city's CAFR. It also increases the risk for CAFR errors, as Finance Office accountants have less time to adequately review the statements.

Cause: The delay in the DOA's submission of the Aviation Fund financial statements and compilation, according to DOA management, was the result of turnover in their accounting personnel as well as the hiring of a new consultant to assist with preparation of the statements and compilation.

Recommendation: To improve the timeliness of its financial reporting, we continue to recommend that DOA management work with the Finance Office to facilitate an earlier deadline for the completion of the Aviation Fund financial statements and compilation, which includes the review checklist [500118.04].

Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR

Condition: As we have reported for the last several years, late receipt of component unit financial reports continued to delay preparation and audit of the city's CAFR. As shown in Table 1 below, six of the city's ten component units still did not submit their final reports by the due dates requested by Finance Office accountants.

The greatest challenge to the timely completion of the CAFR came from the Philadelphia Municipal Authority, the Philadelphia Redevelopment Authority, and the School District of Philadelphia. These three agencies submitted their reports very late (January 27, 2020, January 29, 2020, and February 7, 2020,

respectively), leaving the Finance Office accountants and the Controller's Office auditors very little time to ensure that they were accurately included in the city's CAFR before it was issued on February 25, 2020.

Table 1: Late Submission of Component Unit Financial Reports

<u>COMPONENT UNIT</u>	<u>DUE DATE</u>	<u>DATE RECEIVED</u>	<u>DAYS LATE</u>
Philadelphia Gas Works	12/2/2019	1/6/2020	35
Philadelphia Housing Authority	7/31/2019	10/29/2019	90
Philadelphia Municipal Authority	12/31/2019	1/27/2020	27
Philadelphia Parking Authority	7/31/2019	1/6/2020	159
Philadelphia Redevelopment Authority	12/31/2019	1/29/2020	29
School District of Philadelphia	11/1/2019	2/7/2020	98

Note: Community Behavioral Health, Community College of Philadelphia, Pennsylvania Intergovernmental Cooperation Authority, and Philadelphia Authority for Industrial Development submitted their financial reports timely.

Source: Prepared by the Office of the Controller

Criteria: An essential element of timely financial reporting is that it promotes management accountability and communicates information early enough to allow users of the financial statements to make informed decisions.

Effect: The failure of component units to submit their financial statements on time increases the risk for errors or omissions, as Finance Office accountants become limited in the amount of time available to adequately review the reports. The risk of error also increases as accountants must make significant changes to the financial statements and footnote disclosures each time a component unit's financial information is added to the report. Additionally, each series of changes requires considerable audit time to ensure that accountants have correctly changed previous amounts and footnotes presented for audit. During the current year audit, we identified, and the Finance Office corrected, a misclassification error relating to the component units totaling \$2.4 million.³

Cause: There is no incentive for component units to submit their final financial statements timely to the city and no consequences for those who do not meet the required deadline.

Recommendation: We again recommend that, early in the CAFR preparation process, Finance Office accountants solicit the assistance of the director of finance to secure the cooperation of all component unit management in the timely submission of their respective final financial reports to the city's Finance Office [50102.01].

³ This \$2.4 million error was a misclassification between asset categories and had no effect on net position. It was not included in the \$213 million error total discussed on page 1 of the report.

2019-002 UNTIMELY PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RESULTED IN LATE SUBMISSION OF THE SINGLE AUDIT REPORTING PACKAGE TO THE FEDERAL AUDIT CLEARINGHOUSE

Condition: Because the city expends more than \$750,000 of federal awards, Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a single audit of grant activities to be performed each year. The Finance Office's Grants Accounting and Administrative Unit (GAAU) is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA). GAAU personnel employ a manual process to enter grant expenditures from the city's accounting system into the SEFA through a fund schedule, which is adjusted based on mandatory grant reconciliations provided by the city departments responsible for grants (departments). For fiscal year ending June 30, 2019, a preliminary SEFA was not prepared and provided for audit until March 28th of the following calendar year, which was 3 days prior to the required deadline of March 31st, to submit the reporting package⁴.

Also, for the past several years, we have reported that GAAU has provided an inaccurate SEFA for audit. Due to the late receipt of the SEFA, we were unable to determine its accuracy for the reporting purpose.

Criteria: OMB's Uniform Guidance, Title 2, Part 200, Subpart F Audit Requirements, paragraph .512 requires the single audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Effect: GAAU's untimely preparation and submission of the SEFA, caused delays in planning the audit and subsequent testing of the SEFA and major programs. As a result, the city did not submit a Single Audit reporting package to the Federal Audit Clearinghouse by the federally required deadline. Non-compliance with the reporting requirements is a violation of federal grants terms and conditions. The city's continued failure to meet this filing requirement could affect future federal funding.

Cause: GAAU uses reconciliations of expenditures recorded in the city's FAMIS accounting system and amounts reported to grantor agencies, prepared by various city departments, to verify the accuracy of the SEFA and make necessary adjustments. For fiscal year 2019, GAAU sent requests for these reconciliations in November 2019. Second and third requests were sent to departments who did not meet the initial deadline on December 23, 2019 and January 17, 2020, respectively. Untimely responses from the departments and multiple follow-ups further delayed in the preparation and submission of a SEFA for audit.

Recommendations: We recommend that GAAU allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes [500118.05]. We also recommend the proactive

⁴ On March 19, 2020 the OMB issued memorandum M-20-17, "Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations," allowing recipients and subrecipients that have not filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 – *Audit Requirements*, to six months beyond the normal due date.

enforcement of the existing policies and procedures requiring departments to complete the FAMIS expenditure reconciliations by the due date [500114.12].

2019-003 BREAKDOWNS IN THE FUNCTIONALITY AND APPLICATION IT CONTROLS OF THE ONEPHILLY SYSTEM INCREASE THE RISK FOR MATERIAL PAYROLL ERRORS

Condition: As part of our audit of the city's fiscal 2019 CAFR, we engaged an independent accounting firm to perform an assessment of the information technology (IT) application and general controls related to the city's new Oracle eBusiness Suite/PeopleSoft Workforce Management System (the OnePhilly system). The OnePhilly system replaced the legacy Human Resources (HR), Benefits, Payroll, and Time and Attendance systems.⁵ In December 2018, the HR and Benefits modules went live. The next rollout was in March 2019 with the Payroll and Time and Attendance modules. The Finance Office oversees the OnePhilly Team, whose role is to manage the OnePhilly system project.

This assessment found multiple breakdowns in the functionality and application controls of the OnePhilly system, which we consider to be a material weakness. Specifically, the following was noted:⁶

- Assumed time was automatically recorded by the OnePhilly system if an employee's timecard was short of time in comparison to the employee's scheduled time. Assumed time is a concept where the OnePhilly system assumes that the employee works his/her minimum scheduled hours in a given week or pay period, regardless of what has been entered into Oracle Time & Labor (OTL). The addition of this time was not reviewed for accuracy or authorization.
- Changes were made to employee timecards by the OnePhilly Team or the Finance Office's Central Payroll Unit without documented authorization or approval.
- Employees or timekeepers were able to enter time to hour types that may not be authorized for the department. When time was entered, an hour type was to be selected from a drop-down menu. Examples included regular time, leave time, on call time, etc. Hour types were not restricted by department.
- The OnePhilly Team ran a process which automatically changed employee timecards that were unapproved to approved status.
- Employees who entered their time via Manager Self-Service were able to authorize their own timecards instead of being submitted to his/her direct supervisor for approval.

⁵ The city's plan is also for the OnePhilly system to replace the legacy Pension system, but the OnePhilly Pension module has not yet been implemented.

⁶ This assessment also noted significant deficiencies in the IT general controls for the OnePhilly system, which are discussed on pages 10 to 13 of this report. We also issued a separate report to the Finance Office on the OnePhilly IT controls assessment, which communicated the material weakness in application IT controls, the significant deficiencies in IT general controls, and other observations with lesser impact.

- The OnePhilly system was not accurately calculating all employee leave accruals as multiple defects were self-identified during and after the testing period. According to the OnePhilly team, as of November 4, 2019, approximately 3,000 employees' vacation and sick balances were not accurately reflected in the OnePhilly system. The city departments were instructed to verify their employees' balances outside of the system.
- A defect was self-identified by the OnePhilly Team with the code that was written to transfer the time from Timelink to the OnePhilly system, which resulted in an incomplete time entry transfer. Timelink is the software for departments and employees which use a timeclock to record start and end times.
- During the recalculation of one employee's pay, a difference of \$.06 in the hourly rate was identified; however, the OnePhilly Team did not provide an explanation for this difference.
- The Timecard Status Summary Dashboard (including the Missing Timecard Report) was not restricted by department. The super timekeepers were able to view all employees on the Dashboard. In addition, the Timecard Status table within the Dashboard did not reflect the total population of timecards as the missing timecards were not included. During a walkthrough, the missing timecards listing did not accurately update when different departments were selected.
- The Overpaid / Underpaid report had known inaccuracies according to the OnePhilly Team and required a full review each week. The report was created for each payroll cycle to identify employees which may have been overpaid or underpaid based upon employee type, scheduled hours, and hours entered. The report had over 3,000 lines requiring individual review.
- The controls for monitoring the completeness and accuracy of outbound interface files were inconsistent between the various outbound interfaces. There were customized outputs which were sent to various third parties, including unions for city employees. Certain third parties have requested specific formats which include checks on the completeness and accuracy of the produced files. However, for those groups which have not requested a similar level of detail, there were no formalized monitoring controls in place over the completeness and accuracy of the output files.
- OnePhilly OTL was not available on Mondays and portions of Tuesdays for self-service and timekeeper time entry.
- While the city departments' supervisory and executive-level approvals of the bi-weekly payroll transactions were electronic signoffs in the city's previous payroll system, since the OnePhilly Go-Live, departmental approvals of payroll were no longer electronic. Instead, departments were now required to have the supervisory and executive-level approvers physically sign a paper report, which was then scanned and sent to the OnePhilly Team and Central Payroll Unit.

Criteria: Application controls should be adequately designed to ensure the completeness, accuracy, and validity of processing data, as well as the confidentiality and availability of data. Also, controls should be sufficiently tested to ensure that they are operating effectively.

Effect: There is the potential for the payroll expense and other related liability accounts as reported in the city's CAFR to be materially misstated due to the controls breakdown. In addition, individual employee pay may be inaccurate and/or unauthorized.

Cause: The scope of our consultant's engagement was to assess the application controls in place when the OnePhilly system was in production, supporting the city's HR, Benefits, Payroll, and Time and Attendance processes. As many of these conditions appeared to be in existence from the time of the OnePhilly system Go-Live, the potential cause may have occurred before Go-Live. Therefore, it appears that the city may not have dedicated sufficient resources to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system.

Recommendation: Finance Office management and the OnePhilly Team should evaluate the sufficiency of resources dedicated to identifying, prioritizing, testing, and implementing necessary modifications to the OnePhilly system. A formalized framework should be established and leveraged for identifying, prioritizing, and resolving system issues. Where applicable, this should include resolving the issue prospectively, as well any necessary retrospective corrections. Finally, the identification and tracking to resolution of the issues should be communicated on a periodic basis to applicable stakeholders or departments [303519.01].

SIGNIFICANT DEFICIENCIES

2019-004 DEFICIENCIES IN ONEPHILLY SYSTEM'S IT GENERAL CONTROLS REQUIRE IMPROVEMENT TO MINIMIZE VULNERABILITIES

As discussed on page 7 of this report, we engaged an independent accounting firm to conduct an assessment of the IT application and general controls of the city's new OnePhilly system. In addition to the material weakness found in application controls,⁷ this review noted the following deficiencies in the OnePhilly system's IT general controls:

- There was no formal, documented monitoring of the third parties which significantly support the OnePhilly system.
- Authorization of OnePhilly elevated access for new users and transferred users was not performed using a formal, documented format. In addition, periodic user reviews had not been performed, and there was no formally documented Segregation of Duties policy.
- Passwords were not configured to meet city requirements, including complexity, minimum length, and expiration after 90 days.
- Go-Live approvals were not formally documented and maintained.

Each of these conditions is discussed in more detail below.

Monitoring of Third Parties Was Not Formally Documented

Condition: There was no formal, documented monitoring of the third parties which significantly support the OnePhilly system. Specifically, the following was noted:

- There was no evidence of a formal review and evaluation by the OnePhilly Team of the Ciber Oracle Managed Services (COMS) Service Organization Control (SOC) 2 report, and the CenturyLink Managed Network and Hosting Services SOC 2 report.⁸
- The 2018 COMS SOC 2 report (the most recently available report) was performed by an accounting firm that did not have offices in the United States (U.S.), and was not noted to be part of a network of firms with a U.S. presence.
- Within the CenturyLink SOC 2 report, physical access and environmental controls at the Sterling, Virginia data center where the city's data is housed were not part of the scope of that control evaluation. Also, the OnePhilly Team has not evaluated the sufficiency or effectiveness of these controls.

⁷ See pages 7 to 9 of this report for more detail on the material weakness in OnePhilly IT application controls.

⁸ The city engaged Ciber, an HTC Global Company, (Ciber) to customize and implement the OnePhilly system. In addition, COMS has been contracted to perform the managed services of the day-to-day operations of the system. Ciber hosts the OnePhilly system with CenturyLink, a network services and managed services company.

- There was no evidence of formal monitoring of the Service Level Agreement (SLA) between OnePhilly and Ciber.

Criteria: Reliance on third parties to support key processes requires formalized monitoring controls by the OnePhilly team to ensure that services are being provided as contractually required. SLAs are established with third parties to define minimal acceptable services, including system availability, response times, and other performance metrics. SOC reports are American Institute of Certified Public Accountants (AICPA) defined reports which are performed by public accounting firms to evaluate and report on the controls at a third-party service provider. SOC reports allow management and auditors to gain comfort over controls at a third-party service provider without the need to perform their own audit procedures.

Effect: Formal review of third parties, including ongoing monitoring, was not documented. In addition, there was an increased risk of unauthorized access, and exposure of confidential employee data.

Cause: The primary third party, Ciber, was embedded and working closely with the OnePhilly Team for the development and support of the OnePhilly system. This can seem to cause a breakdown in the boundaries between the OnePhilly Team and the third party.

Recommendation: The OnePhilly Team should establish and document routine monitoring of performance of third parties, including against established SLAs, evaluation of relevant SOC reports, and other applicable reports [303519.02].

Authorization and Review of Elevated Access, Including Segregation of Duties Policy, Was Not Formalized in Writing

Condition: Authorization of OnePhilly elevated access, which allows for the ability to perform transactions beyond employee self-service, for new users and transferred users was not performed using a formal, documented format. User provisioning/de-provisioning access requests, including both employees and contractors, were made via email or verbal request. In addition, periodic user reviews had not been performed. Finally, a formally documented Segregation of Duties (SoD) policy, including identification of incompatible roles, responsibilities, and permissions, had not been established.

Criteria: When elevated access is requested, the request should be performed in a formal manner, indicating the specific access (roles and/or permissions) required, capturing the appropriate approval, and maintaining such in an easily accessible format. In addition, in accordance with OIT's Information Security Access Control Policy V8 – section 7.1, periodic reviews are required to be performed quarterly at a minimum. Incompatible roles, responsibilities, and permissions should be established to enforce SoD in both the provisioning and the periodic reviewing of user access.

Effect: There may be users with access not commensurate with their job responsibilities. In addition, users may have access across incompatible roles, responsibilities, and permissions within the system, thereby potentially allowing a user to bypass system controls.

Cause: Initial elevated access was required only within the OnePhilly Team, which used informal requests to obtain and grant access to new team members. As the system went live, a formalized process to provision and review users was not established.

Recommendation: The OnePhilly Team should develop a comprehensive document that clearly identifies incompatible roles, responsibilities, and permissions. A formal process should be established to request and approve user access, which specifies the access required, considering the documented SoD requirements. Finally, a quarterly review of user access should be performed, with any identified SoD breakdowns removed, or acknowledged with identification of monitoring controls in place [303519.04].

Password Configurations Were Not in Compliance With City Requirements

Condition: The OnePhilly system was configured at Go-Live with a password requirement of case sensitivity and, for user accounts created after Go-Live, a password expiration of 90 days. Additionally, passwords for user accounts converted from the legacy system did not expire and thus did not meet the city's minimum expiration requirements.

Criteria: The OnePhilly system password settings did not meet the minimum requirements as outlined in the OIT's Information Security Access Control Policy V8 – section 6.5.2. This policy requires passwords to have a minimum length of eight characters; be composed of alphabetic, numeric, and special characters; not be the same as the User ID; not contain proper names or words taken from the dictionary; and be changed at a minimum every 90 days.

Effect: Inadequate password configurations significantly increases the possibility of unauthorized access to the system, including malicious or accidental data manipulation or breach of data confidentiality.

Cause: The OnePhilly system password settings were not configured in consideration of the OIT Information Security Access Control Policy requirements.

Recommendation: The OnePhilly password settings should be updated to meet OIT password requirements [303519.05].

Go-Live Approval Documentation Was Not Maintained

Condition: Documented formal approvals or signoffs by the OnePhilly Steering Committee, authorizing the Go-Live of the system in December 2018 (HR and Benefits) and March 2019 (Payroll and Time & Attendance), were not documented or maintained. In addition, meeting minutes, including reports/presentations used to support the Steering Committee's decision to Go-Live, including the decision to defer the Payroll and Time & Attendance Go-Live from December to March, were not maintained.

Criteria: The Go-Live approval sets the baseline of the new system in production. For a large, multiyear project, supporting significant processes, and a Steering Committee representing multiple stakeholders, having documented approvals or signoffs by each Steering Committee person is a critical control element.

Effect: Without documented approval of the Go-Live by the Steering Committee, there is no evidence that full consideration and review was performed of known risks, open tasks to be completed, completion of testing scenarios and agreement of all Steering Committee members.

Cause: The scope of our consultant's engagement was to review the IT general controls in place when the OnePhilly system was in production, supporting the city's HR, Benefits, Payroll, and Time & Attendance processes. As the Go-Live approval is the final step in the implementation project, the potential cause may have occurred before Go-Live, during the project. It appears that there was not adequate management oversight over the OnePhilly project to ensure that the documentation of the Go-Live approval was maintained.

Recommendation: The OnePhilly Team should maintain formal agendas and meeting minutes of the Steering Committee meetings, including capturing the results of any voting decisions by Steering Committee members. For any future module implementation, formal Go-Live approval by the Steering Committee should be obtained and documented prior to Go-Live [303519.06].

2019-005 OIT'S IT GENERAL CONTROLS REQUIRE STRENGTHENING

Condition: We conducted, with the assistance of a consultant, a review of OIT's IT general controls over key financial-related applications.⁹ This review noted the following deficiencies in OIT's IT general controls:¹⁰

- The current change management policy provided by OIT management did not specifically address (1) details on the Change Advisory Board (CAB) approval process that our prior review noted as having been added to the policy and (2) how end-user testing should be documented. OIT management indicated that they are working on an updated change management policy, which will address the CAB approval process and documentation of end-user testing. Additionally, the policy did not clearly identify the level of approvals required for the different types of changes that are migrated to production. As noted in prior reviews, the procedure was still inconsistently applied when performing change requests for in-scope applications. Change requests sampled by us were not consistently supported by documented end-user testing, including detailed testing procedures, and identification that testing was completed. Also, for sampled change requests, the service tickets did not consistently document required approvals, including evidence of review and approval by the CAB.
- OIT did not properly segregate duties in the following cases:
 1. Three OIT programmers had development rights to Basis2 as well as database administrator access rights.
 2. Four OIT employees had database administrator access as well as systems administrator access within FAMIS and ADPICS.

⁹ The key financial-related applications included in the review were FAMIS, Advanced Purchasing Inventory Control System (ADPICS), Legacy Payroll (through March 18, 2019 when replaced by OnePhilly), Pension Payroll, Health and Welfare (through December 17, 2018 when replaced by OnePhilly), Taxpayer Inquiry and Payment System (TIPS), and Basis2.

¹⁰ We also issued a separate report to OIT communicating these significant findings as well as other observations with lesser impact.

3. Two OIT employees had database administrator access as well as systems administrator access within Basis2.

Criteria: Change management procedures should establish clear performance and documentation standards for end-user testing and required approvals to ensure that requested application changes are adequately tested and properly approved before migration to production. Also, OIT's Information Security Administrator Acceptable Use Policy Section 5.1.1 states that IT administrators shall ensure that information systems are configured to provide the ability for segregation of duties to reduce potential damage from the actions of one person. For example, responsibility for initiating transactions, recording transactions and custody of information systems on which the transactions have been performed are assigned to separate individuals.

Effect: Inadequate compliance with established procedures to perform end-user testing and management approval increases the possibility that unauthorized or inadequately reviewed changes will be implemented in the production environment. Also, with the combination of (a) developer access rights, which allows for the creation or modification of code, configuration, and data, along with (b) the database administrator's ability to make direct data changes to the database tables, there is an increased risk for unauthorized and improper code migrations, configuration changes, and data changes occurring without detection. Lastly, with the combination of (a) systems administrator access rights, which allows for the creation or modification of user rights to perform transactions or change system configurations, along with (b) the database administrator's ability to make direct data changes to the database tables, there is an increased risk for unauthorized and improper data changes occurring without detection.

Cause: OIT management has not performed adequate monitoring of the change management function to ensure that established procedures are routinely followed and that the policy clearly identifies standards for documenting end-user testing and the required approvals (including CAB) for the different change types. For the three cases discussed above, OIT management did not exercise sufficient oversight of assigned system access rights to ensure that duties were adequately segregated or, if segregation of duties was not feasible, that there was monitoring of the employees' activities.

Recommendations: To improve IT general controls over financially significant systems, we recommend that OIT management:

- Review its change control procedures and implement measures to ensure that required steps for application changes are performed and documented in accordance with the policy. Also, OIT should update its change management policy to include (1) documentation standards for end-user testing and (2) more detail related to required approvals for all change types and how those approvals should be documented in the service ticket [300413.05].
- Separate the developer/programmer function from the database administrator function for the three programmers with development rights to Basis2 as well as database administrator access rights. If segregation of duties is not feasible, OIT should monitor the activities of the three programmers to ensure they are authorized and appropriate [300419.02].
- Separate the systems administrator function from the database administrator function for the four

OIT employees who have database administrator and systems administrator access within FAMIS and ADPICS. If segregation of duties is not feasible, OIT should monitor the activities of these employees to ensure they are authorized and proper [300419.03].

- Separate the systems administrator function from the database administrator function for the two OIT employees who have database administrator and systems administrator access within Basis2. If segregation of duties is not feasible, OIT should monitor the activities of these employees to ensure they are authorized and appropriate [300419.04].

2019-006 TREASURER'S BANK RECONCILIATION PROCEDURES STILL REQUIRE IMPROVEMENT

Condition: In the prior audit, we reported that, while the Office of the City Treasurer's (Treasurer's) reconciliation of the consolidated cash account had improved, there remained an unreconciled variance as well as the need for formal reconciliation procedures. Also, while Treasurer management asserted that four long unreconciled accounts had been fully reconciled, the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period. A resulting condition from the Treasurer's failure to reconcile accounts for several years was noncompliance with Pennsylvania's Disposition of Abandoned and Unclaimed Property Act (escheat act).

While the Treasurer made certain remediation efforts, deficiencies still existed in the Treasurer's bank reconciliation procedures. Specifically, the following was noted:

- The prior report disclosed that, with the assistance of a consultant, the Treasurer investigated and identified most of the \$33.3 million unknown variance, which resulted from the Treasurer's failure to reconcile the consolidated cash account during fiscal years 2015 through 2017. As of January 2019, the remaining difference was down to \$528,607, where book activity exceeded bank activity. The current audit disclosed that, since the Treasurer and Finance Office determined that additional investigation was unlikely to yield further adjustments to the variance, the remaining difference of \$528,607 was written off and charged to the General Fund in December 2019.
- Also, we previously reported that, during the investigation of the \$33.3 million unknown variance, the consultant noted 22 receipt transactions totaling \$13.5 million – seven deposits amounting to \$2.2 million and 15 wire transfers totaling \$11.3 million – that could not be matched to FAMIS. At the May 15, 2019 exit conference, Treasurer management asserted that they had matched and closed out the \$13.5 million of receipt transactions with no resulting effect on the \$528,607 variance. During the current audit, we requested the documentation for the matching of the \$13.5 million of receipts to FAMIS, but Treasurer management was unable to provide us with this evidence. However, according to the Treasurer, the 15 wire transfers were internal transfers into the consolidated cash account from other city bank accounts, and no adjustments to the city's books were necessary because the revenue had already been recorded. To verify the Treasurer's assertion, we selected the four largest internal transfers which totaled \$8.5 million (75 percent of the \$11.3 million of transfers) and, using information we extracted from the Revenue Department's files of recorded revenue receipts, confirmed that these transfers had already been recorded as revenue. Based upon this work, we deem the matter of the \$11.3 million in transfers to be resolved.

However, since the Treasurer has not provided evidence for the matching of the seven deposits totaling \$2.2 million to FAMIS, that issue is still considered unresolved.

- Although Treasurer personnel timely prepared the fiscal year-end consolidated cash bank reconciliation, they were not timely in their investigation and resolution of reconciling items. Our testing noted numerous long outstanding reconciling items, which had been accumulating since the Treasurer started reconciling the consolidated cash account again in June 2017. As shown in Table 2 below, as of June 30, 2019, there were 1,058 book balance reconciling items over 90 days old with a net total dollar amount of \$1.3 million and 43 bank balance reconciling items over 90 days old totaling \$1.6 million.

Table 2: Reconciling Items Outstanding Over 90 Days on June 30, 2019 Consolidated Cash Account Bank Reconciliation

Date of Reconciling Item (Fiscal Year=FY)	Book Balance Reconciling Items						Bank Balance Reconciling Items	
	Additions to Book Balance		Reductions to Book Balance		Net Activity		Additions to Bank Balance	
	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount	# of Items	Dollar Amount
Prior to FY 2017	4	†<\$4,397,776>	-	-	4	<\$4,397,776>	-	-
FY 2017	35	\$2,313,313	6	<\$217,167>	41	\$2,096,146	2	\$6,750
FY 2018	284	*<\$6,118,089>	189	<\$12,431,612>	473	<\$18,549,701>	34	\$551,406
FY 2019 (through 3/31/2019)	368	\$29,411,111	172	<\$7,241,861>	540	\$22,169,250	7	\$1,021,048
All Fiscal Years	<u>691</u>	<u>\$21,208,559</u>	<u>367</u>	<u><\$19,890,640></u>	<u>1,058</u>	<u>\$1,317,919</u>	<u>43</u>	<u>\$1,579,204</u>

† = On the June 30, 2019 bank reconciliation under the additions to book balance section, the Treasurer included <\$4,397,776> of reconciling items identified as part of the \$33.3 million unreconciled variance. The <\$4,397,776> consisted of <\$3,869,169> of bank return items and the <\$528,607> remaining unreconciled variance. As of June 30, 2019, no adjustments had been made to correct the book balance for these reconciling items so that is why they remained on the June 30, 2019 bank reconciliation.

* = The <\$6,118,089> total for fiscal year 2018 resulted largely from timing differences between book and bank activity for transfers into the consolidated cash account from the city bank account into which electronic tax and water receipts are first deposited.

Source: Prepared by the Office of the Controller based upon the June 30, 2019 consolidated cash account's bank reconciliation provided by the Treasurer's Office

- In a related matter, we followed up on the status of the ongoing problems with reconciling revenue activity for the Department of Public Health (DPH), as previous audits have noted variances between DPH's recorded collections and the amounts transferred daily to the consolidated cash account from the DPH's separate bank account. The June 30, 2019 consolidated cash bank account reconciliation showed a \$6.9 million variance between DPH's recorded collections and actual transfers from DPH's bank account. In the prior audit, the Treasurer stated they began working with the DPH to develop a revised process for handling the DPH's revenue receipts. During the current year, the Treasurer informed us that the DPH now provides the necessary information for reconciliation, but the revised process has not yet been fully implemented.

- In fiscal year 2020, Treasurer management developed written procedures for the preparation of bank reconciliations and filing of reconciliation documentation. However, we observed that the procedures were marked as draft, and management indicated that, while these procedures were followed “by and large” by Treasurer staff, they would be updated and finalized when the Treasurer implements its new Treasury Management System.
- Our testing still noted noncompliance with the Pennsylvania escheat act. While \$865,667 related to unclaimed payroll checks from fiscal year 2017 and prior were escheated to the state in September 2019, there remained \$8 million in outstanding vendor checks for calendar years 1999 to 2016 that had not been escheated to the state. In May 2019, the Treasurer transferred \$3 million of unclaimed vendor checks for calendar years 1999 through 2012 to the city’s Unclaimed Monies Fund. For the remaining \$5 million in outstanding vendor checks pertaining to calendar years 2013 through 2016, Treasurer personnel were contacting the payees to give them an opportunity to claim the monies before the funds are transferred to the Unclaimed Monies Fund.
- Lastly, regarding the four long unreconciled accounts for which the Treasurer was unable to provide bank reconciliations for a large portion of the unreconciled period,¹¹ Treasurer management informed us they are unable to prepare those monthly bank reconciliations because either the bank and/or the supporting city records for those months are not available. In light of this situation and given that (1) testing of fiscal year 2019 bank reconciliations did not identify any unreconciled accounts and (2) the Treasurer has taken action to escheat the old outstanding payroll checks and is working towards the escheatment of the old outstanding vendor checks from the general disbursement account (as discussed above), we will no longer report on this condition [500114.06].

Criteria: Standard Accounting Procedure (SAP) No. 7.1.3.b, *Reconciliation of All Bank Accounts in All City Agencies*, requires that monthly reconciliations of city bank accounts readily identify all of the specific transactions comprising the difference between the book and bank balance to allow city agencies to investigate these reconciling items and determine whether they represent errors or irregularities. Effective internal controls require reconciling items to be researched promptly so that corrective action, where necessary, may be taken. Per the Treasurer’s *Bank Reconciliation Policy*, effective October 1, 2019,¹² any reconciling items must be resolved within 90 business days of the reconciled month.

SAP No. 4.1.2, titled *Unclaimed Monies*, instructs city departments to remit all checks outstanding for over one year to the city’s Unclaimed Monies Fund, which is administered by the Finance Office who is then responsible for remitting amounts to the state in accordance with the escheat act. The Pennsylvania escheat act requires that property which remains unclaimed by the owner for a specified dormancy period (depending on property type) be remitted to the Pennsylvania Treasury. The dormancy period is two years for unclaimed wages/payroll and three years for all other unclaimed property types.

¹¹ The four accounts and their unreconciled periods were as follows:

Wells Fargo Bank Payroll Account (closed in May 2018) – Not reconciled from October 2010 through June 2016

Wells Fargo Bank Supplemental Payroll Account (closed in March 2018) – Not reconciled from October 2010 through June 2014

General Disbursement Account – Not reconciled from February 2012 through December 2012

Levy Account – Not reconciled from July 2014 through June 2016

¹² This policy was marked as draft although Treasurer management indicated that its staff follows this policy “by and large”, except for the 90-day requirement to resolve reconciling items.

Effect: Numerous and old reconciling items complicate and prolong the bank reconciliation process. The untimely investigation and disposition of reconciling items increases the risk that errors or irregularities could occur and go undetected. Also, failure to implement and enforce formal written policies and procedures increases the risk that critical control activities may be inconsistently applied or not applied at all and thus creates the potential for errors. Lastly, noncompliance with the Pennsylvania escheat act may subject the city to penalties.

Cause: The Treasurer failed to take adequate steps to ensure that all reconciling items were resolved in a timely manner. Treasurer management indicated that its staff followed the *Bank Reconciliation Policy* “by and large”, except for the 90-day requirement to resolve reconciling items. Treasurer management informed us that the ability to (1) more promptly investigate and resolve reconciling items, (2) finalize the bank reconciliation procedures, and (3) revise the process for DPH revenue receipts is contingent upon the implementation of the new Treasury Management System.

Recommendations: To improve its bank reconciliation procedures, we recommend that Treasurer management take the necessary steps, including establishing a formal timeline, to implement the new Treasury Management System, in order to enable the Treasurer to:

- Finalize the written bank reconciliation procedures [500117.03].
- Investigate all differences between Treasurer account book and bank balances so that any errors can be quickly identified and resolved within the 90-day requirement of the Treasurer’s *Bank Reconciliation Policy* [500119.02].
- Implement the revised process for DPH revenue receipts to eliminate the problems with reconciling the DPH’s recorded collections to bank transfers [500115.06].

With regard to the \$2.2 million of unmatched receipt transactions, if the Treasurer is unable to locate documentation to support the matching of these receipts to FAMIS, we recommend that Treasurer personnel investigate these receipt transactions and address any errors or improprieties discovered by this review. Management should formally establish a time frame for the completion of this task [500117.04].

Lastly, the Treasurer and Finance Office management should work together to ensure that all escheatable amounts are sent to the Pennsylvania Treasury. In the future, the Treasurer should comply with SAP No. 4.1.2 in remitting all checks outstanding over one year to the city’s Unclaimed Monies Fund, and the Finance Office should send all unclaimed monies due to the Pennsylvania Treasury in accordance with the state escheat act [500117.05].

2019-007 FAILURE OF DEPARTMENTS TO PROPERLY APPROVE BIWEEKLY PAYROLLS INCREASES RISK FOR IMPROPRIETIES

Condition: In the prior audit, we reported on a deficiency in the departmental approval process for payroll where the duties concerning the data entry, review, and approval of bi-weekly payroll transactions were not

adequately segregated. Although improved as compared to the prior year's results,¹³ our testing of 50 city departments for the first 20 pay periods during fiscal 2019 indicated that this condition continued. Specifically, we noted 100 occasions (10 percent), in which the same individual posted and approved the on-line payroll time records, applied both the supervisory and executive-level approvals, or performed all three duties. Employees in seven departments performed duplicate functions for more than two pay periods, with the Mayor's Office and the Department of Planning and Development being the most recurrent among the larger departments.

On March 18, 2019, the city implemented its new OnePhilly payroll system. While the departments approved payroll electronically in the legacy payroll system, since the OnePhilly Go-Live, departmental approvals of payroll were no longer electronic. Instead, department personnel were now instructed to review and approve the Time Entry Detail Report from the OnePhilly system. To evidence the review and approval of departments' payroll entries, the supervisory and executive-level approvers were required to physically sign a printout of the last page of the OnePhilly Time Entry Detail Report, which was then to be scanned and sent to the OnePhilly Team and the Finance Office's Central Payroll Unit by the payroll closing date. The Central Payroll Unit required that the executive-level approver must be an authorized signer listed on the department's payroll signature authorization card.

We tested departments' compliance with the OnePhilly approval process and found most departments did not comply with these new requirements. Our testing of 50 city departments for the 4th quarter of fiscal year 2019 disclosed 278 instances (78 percent) where departments did not submit the Time Entry Detail Report with the required two signatures or did not submit the reports by the payroll closing deadline. Out of these 278 instances, we observed 14 reports which contained the required two approvals but were submitted after the payroll closing deadline. Out of the 50 city departments, only four were in full compliance with the OnePhilly approval process for all pay periods during the 4th quarter of fiscal year 2019.

Criteria: Effective internal control procedures require that payroll data entry, supervisory review, and executive-level approvals be performed by separate, authorized employees.

Effect: Failure to segregate duties and ensure that payroll is reviewed and approved by properly authorized individuals increase the risk of undetected errors. Also, this condition provides opportunities for a person to perpetrate and conceal irregularities during the bi-weekly payroll preparation process, which may result in fraudulent payroll payments.

Cause: The city's legacy payroll system that was in place until March 2019 allowed individuals with supervisory and executive-level approval authority to provide the approval at their level, as well as the levels below them. Finance Office management previously asserted this system feature was intentional to ensure that payroll is processed in emergency situations that may occur when authorized individuals at all levels are not available to perform the payroll review and approval.

The city's new OnePhilly system currently lacks an electronic payroll sign-off process. The director of payroll indicated that the OnePhilly Team and Central Payroll Unit had started work on a project to automate

¹³ The prior year's testing disclosed 257 occasions during fiscal year 2018 (18 percent) in which these payroll functions were not separated. Also, we noted that, for 23 of 55 departments, employees performed duplicate functions for more than two pay periods.

the payroll sign-off process. Regarding the current manual payroll approval procedures for OnePhilly, the Central Payroll Unit did not adequately enforce compliance with requirements.

Recommendation: To improve the departmental payroll approval process for OnePhilly, we recommend that the OnePhilly Team and Central Payroll Unit continue to work together to complete automation of the payroll sign-off process, which should include controls to adequately segregate incompatible duties, particularly the functions of entering, reviewing, and approving payroll transactions. Until the automation is completed, the Central Payroll Unit must remind departments of the current procedures for payroll approvals and enforce compliance with those departments who do not follow requirements [500119.03].

2019-008 ACCOUNTS PAYABLE REPORTING NEEDS IMPROVEMENT

Condition: In computing the accounts payable amounts for inclusion in the city's fiscal year 2019 CAFR, Finance Office accountants failed to record \$30.2 million of accounts payable.

Criteria: Generally accepted accounting principles (GAAP) require that governments report a liability in the period in which it is incurred.¹⁴ Governmental entities must establish adequate control procedures over the computation of accounts payable to ensure that reported amounts are accurate and complete.

Effect: As a result of the unrecorded payables, the city's CAFR contained the following misstatements:

- An \$11 million understatement of both expenditures and accounts payable in the General Fund;
- A \$2.7 million understatement of expenditures, a \$1.3 overstatement of beginning fund balance, a \$2.0 million understatement of accounts payable, and a \$1.9 million understatement of due to component units in the HealthChoices Behavioral Health Fund;
- An \$8.4 million understatement of expenditures, a \$3.8 million overstatement of beginning fund balance, and a \$12.2 million understatement of accounts payable in the Grants Revenue Fund; and
- A \$3.0 million understatement of both construction in progress and construction contracts payable in the Water Fund.

We proposed adjustments to all four funds to correct the city's CAFR for these errors. However, the Finance Office and Philadelphia Water Department (PWD) management elected not to book our adjustments.¹⁵ In addition, for the funds where fiscal year 2019 expenditures were understated as discussed above, since the city's fiscal year 2019 CAFR was not corrected, reported expenditures for fiscal year 2020 will be overstated by those same amounts.

¹⁴ There are exceptions to this standard for governmental funds, such as debt principal and interest which are recognized only when due. Also, certain specific accrued liabilities, such as pension benefits and other post employment benefits, are recognized in governmental funds only to the extent that governments in general normally liquidate them with current financial resources.

¹⁵ As part of our audit procedures, for each of the affected funds, we combined these proposed adjustments with other uncorrected CAFR errors and determined that the resulting total was immaterial to the city's fiscal year 2019 financial statements.

Cause: Our review of the Finance Office’s procedures for computing year-end accounts payable balances disclosed weaknesses that increased the risk for unrecorded payables. Finance Office accountants reviewed payment vouchers posted to FAMIS during fiscal year 2020 through August 16, 2019 in order to identify vouchers for goods or services received on or before June 30, 2019 but not paid until fiscal year 2020, which should be recorded as accounts payable for fiscal year 2019. The Finance Office then requested city departments to provide a list of fiscal year 2019 invoices not yet vouchered or submitted to the Finance Office for processing as of August 16, 2019. Per inquiry of Finance Office management, they computed reported accounts payable by combining (1) the identified payables from their review of FAMIS postings and (2) the information from departments, with the expectation that the departments would supply data on any fiscal year 2019 vendor invoices submitted for payment after the August 16, 2019 cutoff date through September 30, 2019. However, the memorandum that Finance Office management sent to departments requesting this payable data instructed departments to respond by August 23, 2019, 38 days before the date Finance informed us they expected departments to supply payable data. Also, Finance Office management did not provide any evidence documenting a basis for their expectation that departments would provide them with the fiscal year 2019 payables of which department personnel were aware through September 30, 2019.

Our audit testing for unrecorded liabilities – which involved reviewing fiscal year 2020 payment vouchers through December 31, 2019 to identify payments for goods or services received on June 30, 2019 or prior – found \$30.2 million of payables that Finance Office accountants failed to include in reported accounts payable amounts. Table 3 below presents a breakdown of this \$30.2 million in unrecorded accounts payable, showing that the vast majority of errors noted was posted to FAMIS after the Finance Office’s cut-off date of August 16, 2019. Based upon our testing results, it was clear that the Finance Office’s mid-August cut-off date for their review of FAMIS data to identify payables was too early to detect all significant accounts payable. In fact, we found several instances of large unrecorded payables pertaining to payment vouchers posted to FAMIS from early to mid-October 2019.

Table 3: Unrecorded Accounts Payable by Fund and FAMIS Posting Date Before and After Finance Office’s Cut-Off Date

FUND	FAMIS POSTING DATE FOR PAYABLES OCCURRED		TOTAL
	BEFORE	AFTER	
	CUT-OFF DATE†	CUT-OFF DATE†	
General Fund	\$1,002,045	\$9,973,039	\$10,975,084
HealthChoices Behavioral Health Fund	-	\$3,958,905	\$3,958,905
Grants Revenue Fund	\$113,408	\$12,106,139	\$12,219,547
Water Fund	*<\$2,560,908>	\$5,593,719	\$3,032,811
Total	<u><\$1,445,455></u>	<u>\$31,631,802</u>	<u>\$30,186,347</u>

† = The Finance Office’s cut-off date for reviewing FAMIS postings to identify fiscal year 2019 accounts payable was August 16, 2019.

*= Our audit testing found a \$2,560,908 overstatement of accounts payable in the Water Fund pertaining to transactions posted to FAMIS before the cut-off date. This \$2,560,908 overstatement was netted against \$5,593,719 of unrecorded payables posted to FAMIS after the cut-off date to arrive at the proposed audit adjustment amount of \$3,032,811.

Source: Prepared by the Office of the Controller

Additionally, it was apparent that the departments' reporting of payables to the Finance Office was incomplete as departments may have been unaware of, misunderstood, or just not complied with the Finance Office's expectation that the departments provide payable data through September 30, 2019. The departments with the largest share of the total unrecorded payables by fund were as follows: Department of Prisons for the General Fund, Department of Behavioral Health and Intellectual Disabilities Services (DBHIDS) for the HealthChoices Behavioral Health Fund, DBHIDS for the Grants Revenue Fund, and the PWD for the Water Fund.

Recommendations: To improve the Finance Office's process for computing accounts payable and decrease the risk of unrecorded liabilities, we recommend that Finance Office management:

- Extend their review of FAMIS payments in the subsequent fiscal year to an appropriate later date that will enable them to identify significant accounts payable. Finance Office accountants should establish an appropriate threshold for each fund and review all payments exceeding that threshold [500119.04].
- Formalize in writing the payable data required from departments, including the exact timeframe to be covered and an appropriate due date for their response. Reinforce these requirements to departments as well as the importance of providing complete and accurate accounts payable information to the Finance Office for inclusion into the CAFR [500119.05].

2019-009 CAPITAL ASSET CONTROL DEFICIENCIES INCREASE RISK OF REPORTING ERRORS

As previously reported during the last several audits, controls over capital assets are deficient because (1) the city does not have a comprehensive capital asset system to facilitate accounting and reporting of these assets and (2) periodic physical inventories of real property assets are not performed. Each of these conditions is discussed in more detail below.

Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Condition: The city still lacks a comprehensive capital asset management system to better manage and account for real property assets. Instead, Finance Office accountants continue to maintain a cumbersome series of Lotus 1-2-3¹⁶ and Excel files, that together with FAMIS, constitute the current fixed asset ledger. Various spreadsheet files accumulate the cost of capital assets and work in progress, while other spreadsheet files are used to calculate depreciation expense and accumulated depreciation reported in the city's CAFR. Real property addresses are only available in FAMIS by user code, which is identified in an Excel file called the "Proof".

Criteria: Philadelphia's Home Rule Charter¹⁷ requires management to maintain current and comprehensive records of all real property belonging to the city.

¹⁶ While Finance Office management informed us that they were in the process of converting the Lotus 1-2-3 files to Excel, some of the files provided to us for our audit testing of fiscal 2019 capital asset amounts were still Lotus 1-2-3 files.

¹⁷ The Philadelphia Home Rule Charter, Section 6-501

Effect: The use of multiple files creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the CAFR and causes extensive audit effort. For example, we continued to find discrepancies between the “Proof” file and FAMIS – a \$2.8 million discrepancy in the accumulated depreciation balance for buildings and a \$1.0 million variance between vehicle categories.

Cause: While Finance Office management agrees that it would be beneficial to have a comprehensive capital asset system, resources have not been identified to initially fund and continually maintain it.

Recommendation: To improve the accounting and reporting of the city’s capital assets, we continue to recommend that Finance Office management secure the necessary resources to design or purchase a computerized capital asset management system that will provide accurate and useful information such as the book value and related depreciation for each city owned asset [50104.01].

Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records

Condition: Except for the PWD and the DOA, which both periodically check the physical existence and condition of their real property assets, this year’s audit again disclosed no evidence that the city’s other real property assets had been recently inventoried. In the prior year, we reported that, during fiscal year 2018, the Department of Public Property (Public Property) implemented the Integrated Workplace Asset Management System (IWAMS), which contains various data on the city’s real estate assets, including maintenance and improvement costs. In its response to last year’s report, Finance Office management indicated that it was working with OIT to develop a process to reconcile the city’s fixed asset ledger with IWAMS, thus enabling management to periodically validate the completeness and accuracy of the city’s fixed asset inventory. During the current audit, on November 6, 2019, Finance Office management informed us that it was going to meet soon with OIT to review the IWAMS database and attempt to reconcile IWAMS to the city’s fixed asset ledger; however, as of March 24, 2020, this reconciliation had not yet been performed.

Criteria: SAP No. E-7201, *Real Property Perpetual Inventory*, specifies that the Procurement Department shall physically inspect all city-owned real property on a cyclical basis and check against the inventory listing to determine actual existence, condition and propriety of use. Additionally, the Government Finance Officers Association (GFOA) recommends that governments periodically inventory tangible capital assets, so that all assets are accounted for, at least on a test basis, no less often than once every five years. It also recommends governments periodically inventory the physical condition of all existing capital assets so that the listing of all assets and their condition is kept current. Furthermore, the GFOA recommends that a “plain language” report on the condition of the government’s capital assets be prepared, and that this report be made available to elected officials and the general public at least every one to three years.

Effect: Continued failure to perform a physical inventory increases the risk that the city’s recorded real property assets could be inaccurate and/or incomplete.

Cause: This issue has not been a priority for city management. The Finance Office, Procurement Department, and Public Property – the agency responsible for acquiring and maintaining the city’s real property assets – have not developed a coordinated process for physically inventorying all city-owned real property.

Recommendations: We continue to recommend that Finance Office management:

- Work with the Procurement Department and Public Property to periodically take physical inventories of all real property assets, ascertain their condition and use, and ensure that related records are timely and appropriately updated to reflect the results of this effort [50106.04].
- Develop and provide a plain language report on the condition of capital assets at least every one to three years. This report should be made available to elected officials and the general public [500109.02].
- Work with OIT to perform a reconciliation of the IWAMS database to the city's fixed asset records to identify any discrepancies and ensure the completion and accuracy of the city's records [500113.14].

2019-010 SAPs REQUIRE UPDATING TO ENSURE ACCURATE AND CONSISTENT APPLICATION OF ACCOUNTING RULES AND REGULATIONS

Condition: The city's SAPs, which serve as the basis for the city's system of internal control, continue to be long outdated and fail to reflect the automated processes and practices currently in use. The Finance Office has established over two hundred SAPs to provide city departments and agencies with guidance on how to handle various accounting related activities, including proper procedures for ensuring the accuracy of transactions and the safeguarding of assets. Over the years, as new technologies were adopted and daily practices were enhanced, the existing SAPs have not been updated accordingly, with over 50 percent of them still being more than half a century old.

In April 2019, Finance Office management filled the new position of director of compliance and internal controls, who, in June 2019, was tasked with overseeing the SAP update project. Per discussion with the director of compliance and internal controls, the SAP update project will involve two phases. Phase one consisted of the following steps: the identification of SAP owners across city departments; the development of a SharePoint site where all existing SAP documentation was uploaded and access to those files was granted to SAP owners; and the review of existing SAP documentation by SAP owners, who identified which SAPs were outdated. We were provided with the project's tracking schedule, which listed all existing SAPs, identified those SAPs deemed obsolete, and provided target deadlines for completing updates. Phase two is the actual update of SAPs, and the goal is to have all SAPs updated by fiscal year 2025, with an initial, prioritized focus on SAPs pertaining to central departments. The director of compliance and internal controls indicated that, after all SAPs are updated, Finance Office management will explore the compilation of a singular SAP manual and examine how to best embed regular SAP review and updates into its process.

Since September 2015, the Finance Office has updated 18 SAPs, with the most recent being an update of eight grant SAPs issued on February 19, 2020¹⁸ and an addendum to SAP No. 4.1.1.e, *Imprest Funds*, issued

¹⁸ The eight grant SAPs were Nos. G 1-1, *Grant Closeouts*; G 2-1, *Collection and Deposit of Grant Receipts*; G 2-2, *Program Income*; G 3-1, *Expenditure Reconciliation*; G 5-1, *Subrecipient Monitoring Policy*; G 5-2, *Subrecipient Audit Requirements*; G 5-3, *Resolution of Subrecipient Audit Findings and Questioned Costs*; and G 5-4, *Subrecipient Unspent Funds*.

on March 11, 2020, which created a debit card/imprest account for DPH in response to the COVID-19 health emergency. Also, the Finance Office estimated that the update to the ninth and final grant SAP – No. G-6-1, *Budgeting Revenue from Other Governments* – would be completed by March 31, 2020. Lastly, in response to the new OnePhilly payroll system implemented in March 2019, the Finance Office has a target timeline of May 31, 2020 for the completion of payroll related SAPs. It is understood that the target timelines may be delayed due to the COVID-19 health emergency.

Criteria: In accordance with Philadelphia’s Home Rule Charter, the city’s Finance Office is required to establish, maintain and supervise an adequate and modern accounting system to safeguard city finances.¹⁹ Also, in its best practices publication, the GFOA recommends that governments perform an on-going review, evaluation, and update of accounting procedures to ensure they remain technically accurate, understandable, and compliant with current rules and regulations.

Effect: With the majority of SAPs not reflecting the automated processes and practices currently in use, there is an increased risk that critical control activities may be inconsistently applied or not performed at all, which could result in accounting errors and/or misappropriation of assets.

Cause: Over the years, the Finance Office experienced staff reductions that have compromised its ability to conduct periodic reviews and updates to the SAPs.

Recommendation: We recommend that the Finance Office continue to complete the review and update of the SAPs. Procedures no longer pertinent should be rescinded, and those that are out-of-date should be revised to reflect the automated processes and practices in use today. Once this initial update is completed, the Finance Office should develop a schedule for periodically updating SAPs on a regular basis in the future [50102.16].

¹⁹The Philadelphia Home Rule Charter, Section 6-101.

OTHER CONDITIONS

2019-011 FAILURE TO TIMELY TRANSFER FUNDS BETWEEN CITY BANK ACCOUNTS COULD RESULT IN REPORTING ERRORS

Condition: Reported cash and investment amounts in the city's CAFR – specifically those reported under the account entitled Equity in Treasurer's Account – continued to be at an increased risk for misstatement because the Finance Office's accountants still did not always timely transfer monies between city bank accounts to match activity recorded on FAMIS, which is the source of CAFR amounts.

All cash and investments in the bank accounts under the control of the Treasurer are reported under the Equity in Treasurer's Account, which represents each fund's share in the Treasurer's group of bank accounts. While many funds are members of the consolidated cash bank account, which pools monies to maximize the city's investment earnings, the city must also maintain separate bank accounts for certain funds, such as the Water and Aviation Funds, to comply with legal requirements (e.g. bond covenants and ordinances). Therefore, when there is activity in FAMIS that necessitates moving funds between city bank accounts, such as the transfer of expenditures from consolidated cash member funds to the Water or Aviation Funds, Finance Office accountants must prepare a cash transfer authorization (CTA) to authorize the Treasurer to move the funds.

Our current testing noted the following instances when Finance Office accountants did not timely prepare and submit CTAs to the Treasurer:

- For a journal entry posted to FAMIS on August 20, 2019 related to an \$11.8 million reimbursement to the General Fund from the 911 surcharge monies accounted for in the Grants Revenue Fund, the Finance Office did not prepare and approve the CTA until December 17, 2019. The Treasurer transferred the money from the 911 system account to the consolidated cash account on December 18, 2019.
- For a \$7.1 million transfer from the Water Operating Fund to the consolidated cash account related to fiscal year 2019 activity, Finance Office accountants finalized the CTA, and the Treasurer's Office transferred the funds in October 2019.
- For \$4.3 million of transfers due from the Water and Aviation Operating Fund bank accounts to the consolidated cash account – which related to fiscal year interfund expenditure transfers processed in June 2019 – Finance Office accountants did not prepare the CTA to authorize the transfer until November 2019. The Treasurer transferred the monies in December 2019.
- For \$2.6 million of expenditure transfers charged to the Special Gasoline Tax Fund in FAMIS during May and June 2019, the corresponding CTA was not completed until October 2019, and the Treasurer transferred the funds from the Special Gasoline Tax Fund to the consolidated cash account in October 2019.
- For \$1.4 million owed to the consolidated cash account from the County Liquid Fuels Tax Fund – which related to net expenditure transfer and revenue activity posted to FAMIS in May and June 2019 – Finance Office accountants did not finalize the CTA until early October 2019. The Treasurer transferred the money in October 2019.

Criteria: The city's SAP No. I-4295 requires that general ledger records are maintained setting forth the details of the daily transactions pertaining to the consolidated cash account and the member or non-member funds to which they apply. These records should reflect, daily, each member fund's equity balance of the consolidated cash account total and the amounts due from, or to, non-member funds. In addition, SAP No. 7.1.3.b requires that Finance Office accountants reconcile the funds' Equity in Treasurer's Account balances per FAMIS to Treasurer account book balances. Effective internal control demands that such a reconciliation be performed at least monthly. As part of this reconciliation, Finance Office accountants should determine if transfers between bank accounts are necessary and then prepare CTAs accordingly. For reported Equity in Treasurer's Account balances to be accurate, the FAMIS transactions comprising these account balances must be supported by actual bank activity.

Effect: As a result of this condition, there is an increased risk for undetected errors in the Equity in Treasurer's Account amounts reported in the city's CAFR. Also, if required transfers are not performed timely for funds that are legally mandated to maintain separate bank accounts, the city is at risk for noncompliance with the applicable legal requirements.

Cause: Finance Office management had not developed procedures to ensure that the reconciliation of FAMIS Equity in Treasurer's Account amounts to Treasurer account balances and the preparation of necessary CTAs were timely performed. While Finance Office accountants performed these reconciliations for all 12 months in fiscal year 2019, they did not provide the June 30, 2019 reconciliation until January 13, 2020.

Recommendation: To minimize the risk of undetected errors in reported Equity in Treasurer's Account balances, we continue to recommend that the Finance Office management develop procedures designed to ensure that the reconciliation of FAMIS Equity in Treasurer's Account amounts to Treasurer account balances is performed timely and required CTAs are promptly prepared and submitted to the Treasurer. The Treasurer should immediately perform the requested transfers [500117.08].

2019-012 CITY'S ACCOUNTING SYSTEM NOT UTILIZED FOR POSTING ENTERPRISE FUNDS' YEAR-END JOURNAL ENTRIES

Condition: As previously reported, accountants in the Finance Office, the PWD, and the DOA were still not utilizing the full accrual Water and Aviation Funds established in FAMIS to post year-end adjusting journal entries to prepare the financial statements. The prior audit disclosed that the Finance Office prepared entries in FAMIS to record the fiscal year 2018 beginning balances for the full accrual Water and Aviation Funds. However, there have been no other journal entries posted since then to reflect the activity and resulting ending balances for fiscal years 2018 and 2019.

Criteria: The Finance Office, PWD, and DOA should be using the full accrual Water and Aviation Funds in FAMIS to post adjusting entries so as to provide a clear trail of adjustments between the modified and full accrual statements and decrease the risk of errors in the CAFR.

Effect: There is an increased risk of error in compiling the city's CAFR.

Cause: In the past, Finance Office accountants have indicated that more urgent priorities have precluded them from working with the PWD and DOA to utilize the full accrual Water and Aviation Funds in FAMIS. Instead, accountants from the PWD and DOA, with the assistance of consultants, each produce a compilation package containing detailed support for the financial statements, including year-end adjusting journal entries.

We observed that the entries posted to the FAMIS full accrual Water and Aviation funds were simply to record the balance (for a first-time entry) or a change in balance for each account rather than the actual year-end accrual adjustments. Finance Office accountants stated that the information in these funds has little value and is not used. However, we noted that the DOA used the balances in the Aviation full accrual fund as the beginning balances in the compilation. Since FAMIS only reflected the fiscal year 2018 beginning balances, the DOA accountants had to prepare additional journal entries to record the correct fiscal year 2019 beginning balances in compiling the Aviation Fund financial statements.

Recommendations: The city has begun a project which is expected to modernize core financial, grants, procurement, and supply chain business processes, known as the OPAL ERP project. The OPAL ERP project is expected to replace financial accounting systems such as FAMIS. As part of the OPAL ERP project, we recommend that Finance Office management include in the new accounting system a process for the PWD and DOA to utilize for recording their year-end accrual adjustments [500119.06].

Since the FAMIS full accrual balances are utilized by the DOA in its compilation, we recommend that Finance Office accountants bring the balances in the FAMIS full accrual Water and Aviation funds up-to-date through fiscal year 2019 for the upcoming fiscal year 2020 financial statement preparation process and then continue to do so each subsequent year until FAMIS is replaced [500114.02].

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

As part of our current audit, we followed up on the conditions brought to management's attention during our last review. We routinely monitor uncorrected conditions and report on them until management takes corrective action or until changes occur that resolve our recommendations.

Our follow-up has disclosed that the city made progress addressing several prior issues. We blended the status of a resolved prior-noted condition²⁰ with new observations and reported upon these matters in other sections of this report. Other resolved prior year issues are discussed below.

Grant Closeout Procedures Improved

Previously, we reported that the Finance Office along with the DBHIDS failed to timely identify and close out remaining account balances for completed DBHIDS grants. While the city's SAP No. G 1-1, titled *Grant Closeouts*, provides a uniform procedure for city departments and GAAU to follow for the purpose of closing the books and records on completed or discontinued grants, the city's FAMIS accounting system still showed \$31 million of cash balances related to completed DBHIDS grants for prior fiscal years ranging from 2005 to 2015. These remaining cash balances resulted because DBHIDS grant expenditures were charged to the city's General Fund, but the General Fund was not reimbursed by the Grants Revenue Fund, which was the fund where the grant monies were deposited.

During the current audit, we observed that Finance Office accountants completed the necessary accounting adjustments in FAMIS to eliminate the cash balances in the Grants Revenue Fund related to the completed DBHIDS grants and reimburse the General Fund. Also, in August 2019, GAAU sent a request to city departments asking them to review remaining grant receivable balances pertaining to fiscal year 2016 and prior and inform GAAU of any balances that should be written off. Our review of GAAU's June 30, 2019 grants receivable listing for inactive grants found no significant account balances that should have been closed out. Lastly, on February 19, 2020, the Finance Office's director of compliance and internal controls issued an updated SAP No. G 1-1 to department management. Based on the improvements noted, we consider this condition resolved [500118.06, 500118.07].

Finance Office's Payment Voucher Approval Process Improved

Previously, we reported that the Finance Office approved payment vouchers without the required management level of authorization, noting numerous instances when vouchers exceeding \$500,000 were not approved by the department heads or their properly authorized deputies, as required by SAP No. E-0911, *Signature Authorization Form*. In response, effective January 1, 2018, the Finance Office's Financial Verification Unit implemented a process of generating a report identifying all vouchers exceeding \$500,000 for review and appropriate approval verification. Our review of all fiscal year 2018 payment vouchers exceeding \$500,000 disclosed that this condition continued during the first half of fiscal year 2018, but there was significant improvement for vouchers approved from January 1, 2018 forward.

²⁰ The resolved prior-noted condition involved improvements to financial statement review procedures for the Aviation Fund, as discussed on pages 3 to 4 of the report.

During the current audit, our review of all fiscal year 2019 payment vouchers exceeding \$500,000 confirmed this improvement continued, noting that all vouchers were approved with the required management level of authorization. Based on the improvements made by the Finance Office, we consider this condition resolved [500117.06].

Monitoring of Adjustments to Tax Accounts Improved

Previously, we reported that Revenue Department accountants did not perform timely reviews of adjustments made to taxpayer accounts in its Taxpayer Inquiry and Payment System (TIPS), which on any given day can have millions of dollars in posted adjustments. Accountants performed no review of adjustments for fiscal year 2017 and the majority of fiscal year 2018 until mid-April 2018 when the responsibility was assigned to the newly hired Financial Reporting Unit (FRU) accounting manager. For adjustment activity posted since mid-April 2018, the accounting manager selected a small sample of adjustments for review each week from the daily adjustment listings. However, as of January 2019, a formal written policy for the adjustment review process had not yet been established.

Our current audit disclosed that Revenue Department management made various improvements to its adjustment review process. During fiscal year 2019, the accounting manager continued performing limited adjustment reviews until an adjustment review team was established in early March 2019. The team consisted of the accounting manager, two FRU accountants, and an accountant from the Revenue Department's Accounting Control Unit, who functioned as a training and documentation professional. Starting in early March 2019, a weekly review procedure was established whereby the two FRU accountants each tested a sample of five adjustments, for a total of 10 adjustments reviewed each week. Also, in April 2019, Revenue Department management formalized this newly established adjustment review process with the issuance of the *Reviewing TIPS Adjustments User Guide*. Our review of this document noted that it contained comprehensive guidance for the adjustment review team, covering the following:

- Adjustment selection procedures, including looking for patterns of adjustments made by the same user for the same account and requirements for selecting a sample of adjustments made by new hires and existing employees granted new access to an adjustment type;
- Review guidelines, including ensuring that the adjustment was performed by an authorized employee, approved by a supervisor, and adequately supported;
- Procedures for requesting the supporting documentation from the employee who performed the adjustment and reporting to management any discrepancies between the adjustment and support provided;
- Requirements for documenting the review of sampled adjustments; and
- Management responsibilities for ensuring that selection procedures are followed, and proper documentation is retained.

Lastly, our tests of selected TIPS adjustments disclosed no instances of inaccurate or improper activity. Based on the improvements made by the Revenue Department, we consider this condition resolved [500115.07].

Errors in the Water Fund's Depreciation Calculation Corrected

In the prior year, we reported that PWD management failed to detect \$6.9 million of errors in the calculation of accumulated depreciation for Water Fund capital assets. While PWD management utilized consultants to make various upgrades to the Excel file which calculated depreciation, management was unaware, until we brought it to their attention, that there were mistakes in the consultants' new file formulas which misstated depreciation. In their response to this finding, PWD management stated the errors were a direct result of the complexity of the new file formulas. Due to the formula errors, the following misstatements occurred in Water Fund amounts reported in the city's CAFR: (1) a \$6.9 million understatement of accumulated depreciation, (2) a \$3.2 million understatement of depreciation expense, and (3) a \$3.7 million overstatement of beginning net position. We proposed an adjustment to correct the CAFR for these errors, but PWD management elected not to book our adjustment.

During our audit of the fiscal year 2019 Water Fund financial statements, we observed that PWD accountants properly corrected accumulated depreciation and beginning net position for the prior noted errors. Our testing of the PWD's Excel file which calculated depreciation found no significant errors, noting that file formulas had been corrected and simplified. Additionally, we observed that the PWD had added various data validation tests to the Excel file. These data validation tests were designed to flag any formula or manual data entry errors for review and follow-up by management. Based on the improvements made by the PWD, we consider this condition resolved [500118.08].

Controls Over Airport's Computerized Billing System Improved

In the prior report, we commented that controls over the DOA's computerized billing system (PROPworks) needed strengthening. Specifically, we noted that the DOA had not yet formally documented policies and procedures that addressed risk assessment and monitoring of security threats. Also, the DOA's written policy addressing the IT security officer's monitoring of the PROPworks audit trails did not specify the required frequency and documentation of the reviews.

The current audit found that DOA management had taken corrective action to improve its IT policies and procedures. In March 2020, the DOA finalized its *Information Security Risk Management Policy*, which specifies the DOA's strategy for identifying and managing risk within its environment. Also, DOA management revised the policy addressing the IT security officer's monitoring of the PROPworks audit trails to specify that the DOA's accounting manager reviews transactions during the monthly close out process for suspicious activity and, if such activity is detected, that the security officer will be engaged to review PROPworks activity. DOA management provided us with examples of the monthly billing reports that the accounting manager reviews for suspicious activity and then initials to evidence his review. We believe that sufficient improvement has been made to consider this condition resolved [500114.16, 500114.20].

RESPONSE TO AUDITOR'S REPORT



CITY OF PHILADELPHIA

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ROB DUBOW
Director of Finance

May 19, 2020

The Honorable Rebecca Rhynhart
City Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Re: Auditor's Report on Internal Control and on Compliance and Other Matters – Fiscal 2019

Dear Ms. Rhynhart:

Thank you for the opportunity to respond to the findings and recommendations reported in the City of Philadelphia's Fiscal 2019 Draft Auditor's Report on Internal Control and on Compliance and Other Matters. However, before providing our responses, I would like to thank you for noting the resolutions and improvements made to prior year findings, including: Significant improvements to the financial statement review procedures for the Aviation Fund, the strengthening of controls around the preparation and review of the CAFR, significant improvements to the Grant Closeout Procedures which are now being performed in accordance with SAP No. G 1-1, continued compliance with the enhancements made to the payment voucher approval process, and multiple notable improvements to the Revenue Department adjustment review process, including the establishment of an adjustment review team that conducts weekly reviews and the creation of an adjustment user guide. Thanks for also mentioning the improvements to PWD's calculation of Depreciation, which included embedding data validation tests in the excel file utilized for the calculation of depreciation. Finally, thanks for outlining the improvements to DOA's IT policies and procedures, including the development of its Information Security Risk Management Policy.

We offer the following responses to the findings and recommendations found in the Controller's Office audit for fiscal year 2019:

2019-001 Staff Shortages Along with the Lack of a Comprehensive Financial Reporting System Have Contributed to Significant Financial Statement Errors

Finding & Recommendation: You have repeated your finding that inadequate staffing, determined by a comparison of current staff numbers with staffing levels in 2000, along with the lack of a comprehensive reporting system, have contributed to errors in financial statements presented for audit. You also note that errors were corrected prior to finalizing the Comprehensive Annual Financial Report (CAFR) and that the CAFR is a reliable document for informative decision making. You continue to recommend that Finance either hire more accountants or invest in a new comprehensive financial reporting system that will reduce the current labor-intensive procedures needed to prepare the city's CAFR. Further, you recommended that management create a compilation package with detail documentation supporting the CAFR.

Response: The Accounting Bureau (Accounting) is committed to continuing to produce an accurate and well-prepared CAFR and to continuously improving the City's financial reporting. As previously communicated, we believe that the loss of institutional knowledge over time has presented a greater challenge than the reduction in the quantity of staff. Notwithstanding, we have actively worked with the Office of Human Resources and implemented staff retention and training strategies. Since FY15, we have worked to increase the Accounting office workforce. We added 4 employees in 2016 and during FY2019, we hired a Director of Compliance and Internal Controls, who will continue to work with the Office of the Controller to address city-wide compliance matters and review city-wide policies, procedures and practices, identify areas of weakness, develop new procedures, and ensure all departments adhere to established policies and internal control measures. Moreover, we have already started the process of adding employees to the Finance Office for FY20.

We continue to focus on training, with an emphasis on the CAFR preparation process. Our senior management accountants continue to attend the National Government Finance Officers Association (GFOA) conference so that management stays informed of current industry trends, regulatory updates, and best practices in government financial management. For FY20, we hope to source virtual trainings for our non-supervisory staff within budget constraints. We will continue to look for additional effective training opportunities for our staff.

Thank you for acknowledging the improvements in our CAFR preparation and review due to the retention of an external accounting firm and the strides made towards developing a comprehensive checklist for accountants. We will maintain the services of the outside accounting firm to continue to assist in the CAFR compilation efforts. Finance continues to focus on enhancing our reporting processes and we continue to increase efficiencies. Nonetheless, we would like to point out that your statement that the "General Fund's unassigned balance was overstated" is misleading, because there is no financial impact to the General Fund. The use of the "assigned" classification does not represent a notable constraint as in the case of the "committed" or "restricted" classifications, and therefore including this item as a material weakness consideration is unreasonable. Further, the treatment of the audited unobligated Philadelphia Beverage Tax (PBT) monies in prior years underscores the immateriality of the assignment of these funds for FY2019.

We acknowledge that a new comprehensive financial reporting system will improve the CAFR preparation process, and we have begun planning for the implementation of such system through our OPAL project. We continue to evaluate the timing of implementation as we move forward with our planning efforts to replace FAMIS.

Accounting has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for 39 consecutive years and has successfully addressed all GFOA recommendations presented in that process. As always, Accounting will continue to critique the errors in the drafts sent to the Controller's Office and the adjustments resulting from the most recent (FY2019) CAFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward.

2019-001 While Improvement Was Noted, Late Submission of Aviation Fund Financial Statements Delayed Preparation and Audit of CAFR

Finding & Recommendation: You state that the Aviation Fund financial statements and the supporting compilation were completed very late, and specifically, on January 6, 2020, 11 days later than the previous year. You mention that the DOA provided draft financial statements on October 17, 2019, however there were significant changes made to the final financial statements provided in January. You recommend that the DOA management work with the Finance so that the Aviation Fund Financial statements and Compilation are completed timely.

Response: Thank you for acknowledging that your testing of the fiscal year 2019 Aviation Fund financial statements found no material errors. Thank you for also highlighting our enhanced financial statement preparation with supporting compilation package that included detailed support and a review checklist. Thank you also for acknowledging that we provided key financial statement data during November and December 2019 to enable audit testing to timely proceed. While the turnover of key Finance members in addition to having a new consultant contributed to the delay in issuing the FY 19 financial reports, we are pleased that that we made tremendous improvements and our prior year finding has been resolved. We would also like to note that during FY2020 there has been no additional personnel turnover and we have retained our consultant. This provides continuity and familiarity with preparing the reports along with the reporting process. Though it is recommended that DOA work with the Finance Office to facilitate an earlier deadline, with the continuity mentioned above, it is anticipated that DOA will meet all required deadlines.

2019-001 Late Receipt of Component Unit Financial Reports Still Delayed Preparation and Audit of CAFR

Finding & Recommendation: You found that late submission of financial reports by component units is a continuing issue that delays the preparation and audit of the city's CAFR and this may increase the risk of errors and omissions. You recommend that Accounting request the assistance of the Finance Director early in the CAFR preparation process to secure the cooperation of component unit management in the timely submission of their financial data.

Response: We agree that the timely submission of all component unit reports is critical to the timely issuance and accuracy of the City's CAFR. We will continue to meet with management and auditors of various component units concerning timely submission of financial reports, as well as have additional meetings to provide guidance and assist with problems in component units that experience issues that delay the preparation of their financial reports. Finance continues to send initial requests for component unit financial statements and data in as early as May for all entities with March 31 FYE, with required responses no later than June 30. We also continue to send requests for all other Component Units by end of June, with responses required by August 31. Follow-up requests are sent out to component units, with an emphasis on the importance of timely submission of financial data highlighted in all communications. The three component units called out for very late submissions, PMA, PPA and SDP, provided valid reasons for their delay or showed evidence of improvement. PMA (Philadelphia Municipal Authority) was late due the transfer of \$300M of capital assets from PMA to the City. This transfer was required due to the maturity of the underlying PMA bonds, and required additional coordination between the City and PMA. PRA (Philadelphia Redevelopment Authority) indicated their audited financial statements were held up pending the completion of their single audit report. The SDP (School District of Philadelphia) actually improved from FY2018 (submitted 2/12/2019) to FY2019 (submitted 2/7/2020). We will continue to work with the Component Units to ensure timely submission of audited financial statements; as well as continuing to engage the City's Director of Finance, as needed.

2019-002 Untimely Preparation of Schedule of Expenditures of Federal Awards Resulted in Late Submission of the Single Audit Reporting Package to the Federal Audit Clearinghouse

Finding & Recommendation: Your report states that the SEFA was not provided to the audit team until 3 days prior to the required deadline for submission of the Single Audit reporting package to the Federal Audit Clearinghouse, which caused delays in the planning of the audit, and the subsequent testing of the SEFA and major programs. You also note that untimely responses from the departments and multiple follow-ups created further delays in the preparation and

submission of a SEFA for audit. At the same time, you maintain that the SEFAs provided for audit during prior years were inaccurate, and further, given the late submission of the SEFA, you were unable to determine its accuracy for the reporting purpose. You recommend that Finance allocate adequate resources to ensure timely preparation and submission of the SEFA for audit purposes. You also recommend the proactive enforcement of the existing policies and procedures that require departments to complete the FAMIS expenditure reconciliations by the due date.

Response: Finance recognizes the importance of submitting a timely and accurate federal awards and major programs schedule (SEFA) to our auditors. More importantly, there is a crucial need for the timely completion of our audits, and the timely submission of an accurate Single Audit Reporting pack to the Federal Audit Clearing House to prevent a violation of federal grant terms and conditions and to prevent the elimination of federal funding for the City's grants and programs. While we acknowledge GAAU needs to continue all efforts to improve the SEFA submission timeline, we must also point out that the Controller's Office needs to ensure its audits are completed on time, as late audits contribute to further delays in the submission to the Federal Audit Clearing House.

GAAU staff undergo a meticulous process involving numerous departments and requiring multiple follow-ups to produce a complete and accurate SEFA. We communicate the importance of providing complete and accurate information to the departments and we emphasize the need to provide timely data. GAAU provides guidance to departments and conducts numerous collaborative meetings with departments whenever necessary throughout the audit period to discuss issues and assist with resolutions. Our department continues to explore additional ways to provide a completed SEFA to our auditors in a timelier fashion. We agree that additional resources will aid in expediting the SEFA preparation.

Another step to accelerate the preparation of the SEFA, would involve fast-tracking the FAMIS Reconciliation process. GAAU will attempt to begin FAMIS reconciliations early, with Q3 FY2020 FAMIS reconciliations conducted in May 2020 and Q4 FY2020 reconciliations performed by August 2020. Our goal will be to accelerate departmental revenue validations so that these are completed no later than early September and we hope to complete AP accrual validations starting early September. GAAU is committed to working very closely with departments that have late expense and revenue transfers due to Grantor related issues on final award amounts. Further, our goal is to complete the reconciliation of Grant Fund Schedules by end of October 2020 and to provide you with the fully reconciled fund schedules and the SFA version A in November. We are hopeful that an accelerated timeline would result in a timely preparation of the SEFA and we hope to continue working with departments to ensure the requirements of SAP G 3-1 are followed.

We maintain that certain best practices will also enable a timely submission of the Single Audit Reporting Package, including 1) The provision of a "provided by client list" with a detailed schedule of all required support for the audit with target due dates and dates of receipt from Finance for tracking purposes 2) The establishment of multiple planning meetings, including an entrance conference to iron out expectations for all parties and discuss considerations for the upcoming audit and any takeaways from the previous audit, 3) Regular audit status update meetings to identify any constraints and issues and to monitor audit progress 4) The completion of audit testing for the CAFR and Single Audit at the same time and 5) The acceleration of the audit testing timeline, including cross-cutting procedures, where applicable, to ensure that the audits are completed in an accelerated timeline and reporting packages are submitted ahead of time.

2019-003 Breakdowns in the Functionality and Application IT Controls of the OnePhilly System Increase the Risk for Material Payroll Errors

Finding and Recommendation: You recommend the city evaluate the sufficiency of resources dedicated to identifying, prioritizing, testing, and implementing corrections to the OnePhilly system. You also recommend that a formalized framework be established and leveraged for identifying, prioritizing and resolving system issues.

Finding: Assumed time is automatically recorded by the OnePhilly system if an employee's timecard is short of time in comparison to the employee's scheduled time. Assumed time is a concept where the OnePhilly system assumes that the

employee works their minimum scheduled hours in a given week or pay period, regardless of what has been entered into Oracle Time & Labor (OTL). The addition of this time is not reviewed for accuracy or authorization.

Response: The City of Philadelphia is committed to ensuring employees get paid on time. After thoughtful discussion, management agreed to running an Assumed Time program in the event that Departments are unable to update, review and approve time captured for the period. The statement that "time is not reviewed for accuracy or authorization" is inaccurate. Payroll timekeepers are tasked with reviewing the time entries for their departments for accuracy. Departments are also tasked with providing multi-level sign offs of time details captured in the time detail report for that department. Timekeepers go back in retro-effective time periods, perform necessary follow-ups, and update assumed time to reflect actual hours and submit and approve these changes. Management made the decision to leave all pay periods open during the first three months of stabilization, to allow timekeepers adequate time to make updates. Management updated this timeline in July 2019 and allowed timecards to remain open for 6 pay periods, until November 2019, when they switched to the normal timeline of 3 pay periods. Only Authorized personnel make changes to employee timecards after following the required approval steps for that specific process.

Finding: Changes are made to employee timecards by the OnePhilly or Central Payroll Teams without documented authorization or approvals.

Response: The OnePhilly and Central Payroll teams perform certain citywide and cross functional tasks. These teams follow the appropriate steps when performing their functions, including making changes to employee timecards. Some of the changes are made with documental approvals from departments, others are made after discussion with departments, and other changes are made by higher-level payroll examiners, who possess the requisite skillset and knowledge to perform certain city-wide updates to employee records that do not require departmental level approvals.

Finding: Employees or Timekeepers are able to enter time to hour types that may not be authorized for the department. When time is entered, an hour type is to be selected from a drop-down menu. Examples include regular time, leave time, on call time, etc. Hour types are not restricted by department.

Response: Only relevant hours types are authorized for employees and timekeepers. The time types that timekeepers have access to are driven by both Department and Compulsory Union Code (CUC). Hours type should not be restricted at the department level. Hours types are driven by CUC and therefore, not all hours types are available for each employee. For example, Hazmat or Acting Out of Rank is available only for CUC 'F' or firefighters, and Stress Pay is available only for Police. All hours types are reviewed and approved by managers and timekeepers.

Finding: The OnePhilly team runs a process which automatically changes employee timecards that are unapproved to approved status.

Response: The OnePhilly team does not approve all timecards in unapproved status. Only timecards in the most current processing period that are in working status are approved in order to ensure all employees get paid. Timekeepers are then tasked with updating these timecards after the close of the processing period. In the absence of the automatic approval process and the Assume Time program, if managers and timekeepers did not complete their review and approval of employee timecards by the payroll processing deadline, employees would not receive their paychecks. Management determined that the risks related to not paying employees was greater than the risk of paying employees and retroactively adjusting these payments if needed. Further, the number of instances in which employees' current timecards remain in unapproved status has significantly decreased.

Finding: Employees who entered their time via Manager Self-Service were able to authorize their own timecards instead of being submitted to his/her direct supervisor for approval

Response: The number of employees with access to OTL Manager Self-Service has always been limited. Only supervisors and managers have access to OTL Manager Self-Service, which represents ~5% of all employees. Only a portion of that approximately 5% were actually using OTL Manager Self-Service instead of OTL Employee Self-Service

to submit their hours worked. However, we are pleased that the system was updated to restrict the ability of management and supervisors to enter their hours worked using OTL Manager Self-Service.

Finding: The OnePhilly system was not accurately calculating all employee leave accruals as multiple defects were self-identified during and after the testing period. According to the OnePhilly team, as of 11/4/19, approximately 3,000 employees' vacation and sick balances were not accurately reflected in the OnePhilly system. The city Departments were instructed to verify their employees' balances outside of the system.

Response: The OnePhilly team was fully aware of the leave accrual issues that existed in the system and alerted the Controller's office of the unwavering testing and resolution efforts carried out by the team. Leave accrual have been fixed and are now accurately reflected in the system. A sick abuse program to enable departments to systematically track leave balances is targeted to be released by end of this month. This timeline may be impacted by COVID-19.

Finding: A defect was self-identified by the OnePhilly team with the code that was written to transfer the time from Timelink to the OnePhilly system which resulted in an incomplete time entry transfer. Timelink is the software for departments and employees which use a timeclock to record start and end times.

Response: Upon identification, this issue was resolved in a timely fashion.

Finding: During the recalculation of one employee's pay, a difference of \$.06 in the hourly rate was identified; however, the OnePhilly team did not provide an explanation for this difference.

Response: The team identified the root cause of the issue and logged a defect. The issue will be resolved by June 30, 2020. This timeline may be impacted by COVID-19.

Finding: The Timecard Status Summary Dashboard (including the Missing Timecard Report) is not restricted by Department. The Super Timekeepers are able to view all employees on the Dashboard. In addition, the Timecard Status table within the Dashboard does not reflect the total population of timecards as the missing timecards are not included. During our walkthrough, the missing timecards listing did not accurately update when different departments were selected

Response: The Timecard Status Summary Dashboard allows timekeepers to view meaningful data during the time capture phase of payroll processing, such as, timecards in approved status and timecards in working or error status. All of this information is accessed and viewed at the department level. The Missing Timecard Report is the only dataset that is a citywide view in the Timecard Status Summary Dashboard. Timekeepers cannot edit this data, and they DO NOT have access to sensitive payroll and PII information of employees in other departments. We have requested an update to be made to the dashboard so that missing timecard details can be viewed at the department level only. The target timeline for this resolution is June 30, 2020. This timeline may be impacted by COVID-19.

Finding: The Overpaid / Underpaid report had known inaccuracies according to the OnePhilly team and required a full review each week. The report was created for each payroll cycle to identify employees which may have been overpaid or underpaid based upon employee type, scheduled hours, and hours entered. The report had over 3,000 lines requiring individual review.

Response: The team provided and demonstrated initial versions of the Overpaid/Underpaid reports during the walkthroughs. Those initial reports were fine-tuned and enhanced, as can be expected with any implementation, and this was communicated to the auditors. A team of payroll examiners conduct the review of the Overpaid/Underpaid reports. The statement that the 3,000-line report requires individual review is inaccurate.

Finding: The controls for monitoring the completeness and accuracy of outbound interface files is inconsistent between the various outbound interfaces. There are customized outputs which are sent to various third parties, including Unions for city employees. Certain third parties have requested specific formats which include checks on the completeness and

accuracy of the produced files. However, for those groups which have not requested the similar level of detail, there are no formalized monitoring controls in place over the completeness and accuracy of the output files.

Response: Post June 30, 2019, the OnePhilly team expanded controls over reconciliation of outbound interfaces. There are two sets of controls in place: controls that are required by the receiving organization/external entities for reconciliation purposes, and internal reconciliation controls and other controls that are carried out by the OnePhilly team during the interface execution process.

Finding: OnePhilly OTL is not available on Mondays and portions of Tuesdays for self-service and timekeeper time entry.

Response: The suspension of time only impacts self-service users and timekeepers every Monday and every other Tuesday. The overwhelming majority of city employees (greater than 75%) are not self-service users and are not impacted by the suspension of time. Notwithstanding, the OnePhilly team will implement a process that suspends time entry only for the current pay cycle, instead of for all pay-periods. The expected timeline for implementation, considering other enhancement priorities, is September 2020.

Finding: While the city departments' supervisory and executive-level approvals of the bi-weekly payroll transactions were electronic signoffs in the city's previous payroll system, since the OnePhilly Go-Live, departmental approvals of payroll are no longer electronic. Instead, departments are now required to have the supervisory and executive-level approvers physically sign a paper report, which is then scanned and sent to the OnePhilly and Central Payroll teams.

Response: The change from electronic to paper signoffs in and of itself is not an issue. In fact, the current paper sign-off process requires supervisory and executive-level approvers to review the time detail report before manual sign-off. As already communicated to the Controller's office, the team is going to enhance the sign-off process even further, and specifically, Central Payroll has worked with the One Philly Team to develop the blueprint for automation of the payroll sign-off process. The target timeline for the additional enhancements to be completed is May 2020.

2019-004 Deficiencies in OnePhilly System's IT General Controls Require Improvement to Minimize Vulnerabilities

Monitoring of Third Parties Was Not Formally Documented:

Finding and Recommendation: You state that there is no formal, documented monitoring of the third parties which significantly support the OnePhilly system. You recommend the OnePhilly team establish and document routine monitoring of the performance of third parties, including against established SLAs, evaluation of relevant SOC reports.

Finding: There is no evidence of a formal review and evaluation by the OnePhilly team of the Ciber Oracle Managed Services (COMS) Service Organization Control (SOC) 2 report, and the CenturyLink Managed Network and Hosting Services SOC 2 report.

Response: The review of the SOC reports that were provided during the audit would have been conducted by the previous OnePhilly director, who is no longer with the City of Philadelphia. All future SOC report reviews will be conducted by a team of reviewers comprising representatives from OIT's Information Security Group (ISG), Law and Finance. Where control gaps exist, vendor due diligence checks will be conducted.

Finding: The 2018 COMS SOC 2 report (the most recently available report) is performed by an accounting firm that does not have offices in the US, and is not noted to be part of a network of firms with a US presence.

Response: In this global and technologically enhanced world, an audit firm does not need to be located in the US to perform its functions in accordance with US Audit guidelines. Also, the auditor on this engagement is a US registered CPA, and his team includes consultants from a PCAOB registered firm. The SOC report was created in AICPA format, and the auditors confirmed that their audit was conducted in accordance with AICPA standards. This fact is also highlighted within the SOC report, both in the "Scope" and the "Service Auditor's Responsibilities" sections.

Finding: Within the CenturyLink SOC 2 report, physical access and environmental controls at the Sterling, VA data center where the city's data is housed were not part of the scope of that control evaluation. Also, the OnePhilly team has not evaluated the sufficiency or effectiveness of these controls.

Response: As noted previously, we have assembled a team who will perform all future SOC report reviews, as well as conduct vendor due diligence checks where there are control gaps, moving forward.

Finding: There is no evidence of formal monitoring of the Service Level Agreement (SLA) between OnePhilly and Ciber.

Response: There are numerous mechanisms in place to monitor SLA: Daily performance dashboard reports are sent to the OnePhilly team. Management reviews these automated system generated reports daily. There are also weekly PMO meetings scheduled and minutes to these meetings are maintained. Additional monthly SLA meetings are also conducted.

Authorization and Review of Elevated Access, Including Segregation of Duties Policy, Was Not Formalized in Writing:

Finding and Recommendation: You stated that authorization of OnePhilly elevated access, which allows for the ability to perform transactions beyond employee self-service, for new users and transferred users was not performed using a formal, documented format. You also note that user provisioning/de-provisioning access requests, including both employees and contractors, were made via email or verbal request. In addition, periodic user reviews had not been performed. Finally, a formally documented Segregation of Duties (SoD) policy, including identification of incompatible roles, responsibilities, and permissions, has not been established. You recommend the OnePhilly team develop a comprehensive document that clearly identifies incompatible roles, responsibilities, and permissions. You also request that a formal process be established to request and approve user access, which specifies the access required, considering the documented SoD requirements. Additionally, you ask that a quarterly review of user access be performed.

Response: During the audit, OnePhilly provided ample documentation concerning separation of duties and systematic permissioning based on responsibilities across departments. Based on feedback from EisnerAmper, we agreed to develop a single, comprehensive and easy to read document on Segregation of Duties. This document is in progress and the team aims to complete it during FY2021. Regarding access provisioning and de-provisioning, the OnePhilly security provisioning team was an integral part of building out the responsibilities in the system and are well versed with systematic permissioning and segregation of duties. As communicated during the audit, quarterly citywide access reviews occurred by default during implementation in December and March, because departments provided the listing of employees approved to be added during this time, and therefore, only payroll process owners were added, and access was reviewed and granted based on the assigned roles and responsibilities details provided by Departments. We also communicated that the team established quarterly reviews of user access post June 30, 2019. Furthermore, the team is making additional updates to the user access process, including daily automated de-provisioning of employee transfers and terminations target June 30, 2020.

Password Configurations Were Not in Compliance with City Requirements:

Finding and Recommendation: The OnePhilly system was configured at go-live with a password requirement of case sensitivity and, for user accounts created after go-live, a password expiration of 90 days. Additionally, passwords for user accounts converted from the legacy system do not expire and thus do not meet the minimum expiration requirements. You recommend the OnePhilly password settings be updated to meet OIT password requirements.

Response: As previously communicated, the password policy implemented by Ciber at Go-live was two-fold: 1) the standard password policy for Oracle was implemented across the board and 2) The password change requirement for all new users was set to 90 days, plus, the password change requirement established in Legacy for all legacy users was transferred; essentially, the timelines for password change for each user was already established in legacy, and these password expiration requirements were transferred from Legacy to OnePhilly at conversion. We also previously communicated that the OnePhilly team submitted a ticket request to Ciber to have the password policy updated to align directly with the OIT Information Security Access Control Policy. We also previously noted that the plan for implementing the city-wide policy was targeted to be implemented by April 30, 2020. This implementation has been completed despite being slightly delayed due to the COVID-19 crisis.

Go-Live Approval Documentation Was Not Maintained:

Finding and Recommendation: Documented formal approvals or signoffs by the OnePhilly steering committee, authorizing the Go-Live of the system in December 2018 (Human Resources (HR) and Benefits) and March 2019 (Payroll and Time & Attendance), were not documented or maintained. In addition, meeting minutes, including reports / presentations used to support the Steering Committee's decision to Go-Live, including the decision to defer the Payroll and Time & Attendance Go-Live from December to March, were not maintained. You recommend the OnePhilly team maintain formal agendas and meeting minutes of the Steering Committee meetings, including capturing the results of any voting decisions by Steering Committee members and that formal Go-Live approval by the Steering Committee be obtained and documented prior to Go-Live.

Response: The team maintained and provided ample documentation of steering committee meeting agendas and presentations, go live timelines, and emails to the steering committee confirming Go-live was successful, among other communications. Therefore, the determination that the lack of a single, formal document, with signoffs from each steering committee member constitutes a significant deficiency, in light of the support provided, is unduly harsh.

2019-005 OIT'S IT General Controls Require Strengthening

Finding & Recommendation: You noted deficiencies in OIT's IT general controls, including: failure to segregate the duties of the OIT programmer function and the database administrator function in Basis2, failure to segregate the duties of the database administrator function and the systems administrator function in FAMIS, ADPICs and Basis2, and an incomplete change management policy which did not specify the Change Advisory Board approval process, and did not specify how end user testing should be documented. You recommend that OIT update its change management policy to include (1) documentation standards for end-user testing and (2) more detail related to required approvals for all change types and how those approvals should be documented in the service ticket. You also recommend that OIT implement segregation of duties and if this is not feasible, monitor employees to ensure they are authorized and appropriate.

Response: OIT will assess separating the functions mentioned above and will segregate the duties associated with each among available employees where possible. Where, due to limited resources, OIT must rely on one employee to perform multiple functions, OIT will make every effort to monitor employee activity. Additionally, OIT will continue to review its change management control procedures and implement measures to ensure that the process is adhered to for application changes. OIT will also work to revise its change management policy to include the two additional recommended requirements.

2019-006 Treasurer's Bank Reconciliation Procedures Still Require Improvement

Finding & Recommendation: You repeated your finding that the Treasurer's Office did not properly reconcile the city's primary depository account (consolidated cash account) between 2015 and 2017 and noted that the remaining unreconciled variance of \$528,607 was written off in FY19. You also repeat your finding that the Treasurer was unable

to provide monthly bank reconciliations that covered a large portion of the unreconciled period for 4 long outstanding unreconciled accounts. Of the unreconciled \$33.3 million during this prior period, you state that Treasury was unable to provide documentation to match \$2.2 million of deposits to transactions in FAMIS. You also found that Treasury did not timely investigate and resolve all outstanding unreconciled items within 90 days and noted that your testing revealed outstanding vendor checks for calendar years 1999 to 2016 that had not been escheated to the state. You recommend Treasury finalize written bank reconciliation procedures, and that differences between Treasurer account book and bank balances are investigated and resolved within 90 days in accordance with the Treasurer's Bank Reconciliation Policy, and that the Treasurer continue work with the Department of Public Health to implement the revised process for revenue receipt reconciliations. Finally, you recommend that the Treasurer and Finance Office management work together to ensure that all escheatable amounts are sent to the Pennsylvania Treasury in compliance with SAP No. 4.1.2.

Response: The City Treasurer's Office (CTO) is pleased that you acknowledged that its reconciliation of the consolidated cash account has improved. Thank you for also acknowledging that the remaining difference of \$528,607 was written off and charged to the General Fund in December 2019, and thus this condition is now closed. We would like to note that CTO provided adequate alternative support for the 4 long unreconciled accounts, which included annual bank reconciliations instead of monthly reconciliations, and thus the statement that "the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period" is misleading. However, we acknowledge that you reported this condition as closed. CTO also developed policies and procedures which are final and used by staff. These documents will be updated to reflect any changes required by the implementation of the Treasury Management System. CTO has also re-engaged with the Department of Public Health to implement the revised process that improves the identification and recognition of revenue receipts.

2019-007 Failure of Departments to Properly Approve Biweekly Payrolls Increases Risk for Improprieties

Finding & Recommendation: You note that there are multiple instances where the same individual applied the supervisory and executive level approvals or posted transactions and applied supervisory and executive level approvals. You also note that with the new OnePhilly payroll system, departmental approvals are no longer electronic. You recommend that the OnePhilly and Central Payroll Unit continue to work together to complete the automation of the payroll sign-off process, which should include controls to adequately segregate incompatible duties, particularly the functions of entering, reviewing, and approving payroll transactions.

Response: Thank you for acknowledging that improvements were made in the departmental approval process for payroll compared to prior year results. We communicated to departments that at least one level two and one level three sign-off would be required at implementation. After departments' failure to provide two levels of sign-offs, we reviewed the communication initially sent out and concluded that some departments may have mis-interpreted the initial communication to mean "*a minimum of one level of authorization is required for the payroll sign-off: either one or more at level 2 or 1 or more at level 3, but one would be sufficient.*" In addition, there are some departments that have historically needed to delegate "temporary signature authorization." For such departments, when only one signature was provided, we have considered that the temporary signature authorization process was enforced. Nonetheless, we assigned a payroll representative to reach out to departments each payroll cycle to request additional sign-offs that are not received by the payroll closing date and time for each cycle. To fully resolve this issue, the following steps have been taken by our team:

1. To provide clarification, in November 2019 we amended the Payroll Close memo that goes out to departments each week to include language that states departments MUST have two signers on the Time Entry Edit Report. We also included this as an agenda item for the November 2019 HR Managers' meeting.
2. In order to be proactive, and to eliminate any instance of having only one signature, or the same person providing two levels of authorization, Central Payroll worked with the One Philly Team to develop the blueprint for automation of the payroll sign-off process. We hope to begin working on this project starting May 2020.

2019-008 Accounts Payable Reporting Needs Improvement

Finding & Recommendation: You state that Finance Office accountants failed to record \$30.2 million of accounts payable and you also highlight that it was apparent that the departments' reporting of payables to the Finance Office was incomplete as departments may have been unaware of, misunderstood, or just not complied with the Finance Office's expectation that the departments provide payable data through September 30, 2019. You recommend that Finance extend the review of FAMIS payments in the subsequent fiscal year to at least mid-October to identify accounts payable, you also recommend that we formalize in writing the payable data required from departments, including the exact timeframe to be covered and an appropriate due date for their response.

Response: Departments are provided with a memo explaining the requirements to provide accounts payable data by the applicable cut-off period. Finance will work on expanding this memo, where necessary. Our accounts payable cut-off timeline is based on our 120 days (after year end) timeline to complete the AFR in compliance with the deadline mandated by Charter requirements. While improvements can be made if the Auditors align their cut-off period with the cut-off period for Finance, we may continue to see discrepancies due to items such as late executed contracts and delayed invoices that hinder departments from providing such accounts payable details within our mandated timeline. Major improvements can be made, and we can reduce discrepancies if departments improve their reporting of accounts payable to the Finance office.

2019-009 Lack of a Comprehensive Capital Asset System Hampered Reporting Process

Finding & Recommendation: You repeat your finding that the city still lacks a comprehensive capital asset management system to better manage and account for real property assets. You again mention the use of Lotus 1-2-3 spreadsheet files and excel files to track and report capital assets and depreciation and you state that this practice creates a burdensome and onerous process that can affect the accuracy and completeness of capital asset amounts reported in the CAFR.

Response: Finance Office continues to improve its process of accounting for real property assets. The number of Lotus 1-2-3 files utilized in our process have been significantly reduced, with a 90% conversion year on year. The remaining 3 files in use will soon be converted. While the excel file reliant fixed asset process is somewhat tedious, there have not been any material errors. It is our hope that this issue will be adequately addressed with new technology in the near future, possibly as part of the OPAL project.

2019-009 Failure to Inventory Real Property Assets Increases Risk of Inaccurate Accounting Records

Finding & Recommendation: You repeat your finding that with the exception of PWD and DOA, the physical existence of real property assets across the city are not periodically checked. You mention the Integrated Workplace Asset Management System (IWAMS) implemented by the Department of Public Property, which contains various data on the city's real estate assets, and you mention the Finance office management plans to reconcile its fixed asset ledger with IWAMS. You highlight that continued failure to perform a physical inventory increases the risk that the city's recorded real property assets could be inaccurate and/or incomplete. You recommend that Finance Office management work with OIT to perform a reconciliation of the IWAMS database to the city's fixed asset records, work with the Procurement Department and Department of Public Property to periodically take physical inventories of all real property assets, and develop a periodic report on the condition of capital assets.

Response: Finance Office management have had multiple preliminary meetings with the GIS unit concerning our objective of reconciling the fixed asset ledger to IWAMS. During November we had a meeting with GIS that laid the framework for the reconciliation process and jumpstarted our analysis. We anticipated the analysis would be a cumbersome task and plan to follow up. The team will be following up GIS in another meeting to discuss the progress of the reconciliation in the near future.

2019-010 SAPs Require Updating to Ensure Accurate and Consistent Application of Accounting Rules and Regulations

Finding & Recommendation: You repeat your finding that the city's SAPs are long outdated and fail to reflect the automated processes and practices currently in use. You state that with the majority of SAPs not reflecting the automated processes and practices currently in use, there is an increased risk that critical control activities may be inconsistently applied or not performed at all, which could result in accounting errors and/or misappropriation of assets. You recommend that the Finance Office continue to complete the review and update of the SAPs and develop a schedule for periodically updating SAPs on a regular basis in the future.

Response: We agree with your recommendations to continue the update of the city's SAPs. Management will continue to prioritize this initiative, within budget constraints.

2019-011 Failure to Timely Transfer Funds Between City Bank Accounts Could Result in Reporting Errors

Finding & Recommendation: You repeat your finding that cash and investments reported under the "Equity in Treasurer's Account" are at an increased risk for misstatement because the Finance Office accountants still do not always timely transfer monies between city bank accounts to match activity recorded on FAMIS. You again recommend that Finance Office management develop procedures that ensure the reconciliation of FAMIS Equity in Treasurer's Account amounts to Treasurer account balances is performed timely. You also ask that CTAs be promptly prepared and submitted to the Treasurer and that the Treasurer immediately perform the requested transfers.

Response: The Finance Office continues to examine the CTA process to identify opportunities for enhancement, to enable timely reconciliation and preparation of CTAs. There are instances where a more detailed review of activity is required before processing CTAs. We will work to minimize the time span for the creation and review of CTAs involving complex and unusual activity and we will continue to follow-up with CTO to ensure the requested CTAs are completed timely.

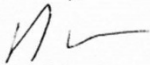
2019-012 City's Accounting System Not Utilized for Posting Enterprise Funds' Year-End Journal Entries

Finding & Recommendation: You repeat your finding that accountants in the Finance Office, the PWD, and the DOA are still not utilizing the full accrual Water and Aviation Funds established in FAMIS to post year-end adjusting journal entries to prepare the financial statements. You recommend that as part of the OPAL ERP project, Finance Office management should include in the new accounting system a process for the PWD and DOA to utilize for recording their year-end accrual adjustments.

Response: Finance Office management will ensure that entries are posted to the full accrual fund balance sheets to reconcile to the 6/30/19 financial statements by 6/30/2020. The OPAL ERP project is a comprehensive accounting system that will integrate systems across the city and create efficiencies and enhance financial reporting. This project is in the preliminary stages, but we hope to leverage the Office of the Controller during this phase to provide insight on the shortcomings of the FAMIS system, and to provide guidance on the audit reporting and documentation requirements we should ensure our selected integrated system fulfills.

Thank you for the observations provided in your report and for the opportunity to respond. We look forward to continued cooperation with your office.

Sincerely,



Rob Dubow
Director of Finance

Enclosures

cc: James Engler, Mayor's Chief of Staff
Josefine Arevalo, Accounting Director, Finance Department
Tracey Borda, Chief Financial Officer, Division of Aviation
Frank Breslin, Revenue Commissioner & Chief Collections Officer
Stephanie Tipton, Chief Administrative Officer
Kathleen Duggan, Audit Director, City Controller's Office
Christy Brady, Post-Audit Deputy Controller, City Controller's Office
Kellan White, First Deputy Controller, City Controller's Office
Catherine Lamb, First Deputy Director of Finance
Mervisa Johnson, Director of Compliance and Internal Controls
Christian Dunbar, City Treasurer
Sarah Stevenson, Chief Integrity Officer
Melissa LaBuda, Deputy Commissioner, Water Department
Prachi Sathe, OnePhilly Director
Valerie D Hayes, Payroll Director
Mark Wheeler, Chief Information Officer

AUDITOR'S COMMENTS ON AGENCY RESPONSE

AUDITOR'S COMMENTS ON AGENCY RESPONSE

Government Auditing Standards require auditors to report instances where the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendations. We believe this to be the case with certain statements made in the City of Philadelphia, Pennsylvania's (city's) response regarding the following:

- Fund balance classification of unobligated Philadelphia Beverage Tax (PBT) monies.
- Financial statements sent to the Controller's Office for audit.
- Changes in the staff size of the Finance Office's accounting division.
- Untimely preparation of SEFA resulted in late submission of Single Audit reporting package.
- OnePhilly system functionality and lack of application controls.
- Monitoring of OnePhilly third parties.
- Treasurer's failure to provide bank reconciliations for four long unreconciled accounts.
- Cut-off period for accounts payable reporting.

Fund Balance Classification of Unobligated PBT Monies

In its response on page 33, management states the following:

Your statement that the "General Fund's unassigned balance was overstated" is misleading, because there is no financial impact to the General Fund. The use of the "assigned" classification does not represent a notable constraint as in the case of the "committed" or "restricted" classifications, and therefore including this item as a material weakness consideration is unreasonable. Further, the treatment of the audited unobligated Philadelphia Beverage Tax (PBT) monies in prior years underscores the immateriality of the assignment of these funds for FY2019.

We disagree with management's above statements. According to GASB standards, unassigned fund balance should represent fund balance not restricted, committed, or assigned to specific purposes. The unobligated PBT monies, which totaled \$120.9 million at June 30, 2019, meet the GASB guidelines for assigned fund balance (i.e. funds constrained by a government's intent to use them for a specific purpose) since the city administration has clearly expressed intent that the PBT monies be used for the expansion of Pre-K programming, Community Schools, and debt service on the Rebuild bonds. In fact, when we asked the GASB for its feedback on this issue, the assigned GASB senior research manager agreed with our assessment. Therefore, in the CAFR presented for audit, the General Fund's unassigned fund balance (which totaled \$246.7 million) was overstated by \$120.9 million because it included the unobligated PBT monies, which comprised nearly half of the reported unassigned fund balance.

Financial Statements Sent to the Controller's Office for Audit

In its response on page 33, management states, "As always, Accounting will continue to critique the errors in the drafts sent to the Controller's Office and the adjustments resulting from the most recent (FY2019) CAFR audit with the entire accounting staff as a learning tool to produce improved financial statements going forward." We disagree with management's use of the term "drafts" when describing the financial statements submitted to us for audit. Effective internal control requires that, before the Finance Office submits the CAFR to us for audit, accounting management should perform a review of those financial statements for accuracy and completeness. The \$213 million of CAFR errors cited on page 1 of the report occurred because the city's controls over the financial reporting process failed to prevent or detect and timely correct the misstatements. In fact, we found most of the \$213 million of CAFR errors very late in the audit process, proposing most of our audit adjustments within the one-month period prior to the issuance of the audit opinion, when the Finance Office should have already completed its financial statement review procedures and finalized the statements.

Changes in the Staff Size of the Finance Office's Accounting Division

In its response on page 33, management states, "Since FY15, we have worked to increase the Accounting office workforce. We added 4 employees in 2016 and during FY2019, we hired a Director of Compliance and Internal Controls...Moreover, we have already started the process of adding employees to the Finance Office for FY20." Management's statement does not address the decrease in the total staff size of the Finance Office's accounting division from fiscal year 2016 to fiscal year 2018. As noted in previous reports, the total staff size in the accounting division was 49 in fiscal year 2016, 47 in fiscal year 2017, and 46 in fiscal year 2018. Also, as we stated on page 2 of the report, while the number of accountants increased by three in fiscal year 2019 (bringing the staff size back up to the fiscal year 2016 level), the current staff size is still not the level of hiring needed to address the ongoing staff shortages that have hindered the ability of the Finance Office to produce a timely and accurate CAFR for audit.

Untimely Preparation of SEFA Resulted in Late Submission of Single Audit Reporting Package

Regarding management's statements concerning the untimely preparation of the SEFA which resulted in the late submission of the Single Audit reporting package, we have the following comments:

- In its response on page 35, management states, "While we acknowledge GAAU needs to continue all efforts to improve the SEFA submission timeline, we must also point out that the Controller's Office needs to ensure its audits are completed on time, as late audits contribute to further delays in the submission to the Federal Audit Clearing House."

To perform a timely audit, it is important that we receive the SEFA in a timely manner. Without a SEFA, we are not able to perform initial audit planning procedures, such as analytical reviews, risk assessment of the programs, selection of the major programs, and planning the internal control and compliance testing. Also, our audit timelines are dependent on the timely receipt of accurate financial schedules and supporting documentation for audit. As noted on page 6 of the report, for

fiscal year 2019, the GAAU did not provide the preliminary SEFA for audit until March 28, 2020, which was only three days prior to the required deadline of March 31st, to submit the Single Audit reporting package.

- In its response on page 35, management states the following:

We maintain that certain best practices will also enable a timely submission of the Single Audit reporting package, including 1) The provision of a “provided by client list” with a detailed schedule of all required support for the audit with target due dates and dates of receipt from Finance for tracking purposes 2) The establishment of multiple planning meetings, including an entrance conference to iron out expectations for all parties and discuss considerations for the upcoming audit and any takeaways from the previous audit, 3) Regular audit status update meetings to identify any constraints and issues and to monitor audit progress 4) The completion of audit testing for the CAFR and Single Audit at the same time and 5) The acceleration of the audit testing timeline, including cross-cutting procedures, where applicable, to ensure that the audits are completed in an accelerated timeline and reporting packages are submitted ahead of time.

The best practices management listed above have been in place during our audits, including a provided by client (PBC) list with target dates that was given to the Finance Office at the entrance conference on June 4, 2019 for the fiscal year 2018 audit. We also held multiple entrance conferences with the grantor departments that had major programs selected for audit. We held periodic update meetings with the Finance Office and tracked the status of the receipt of documents on the PBC list throughout the audit. The key obstacle to submitting the Single Audit reporting package to the Federal Audit Clearinghouse on time remains the Finance Office’s untimely preparation and submission of the SEFA for audit.

OnePhilly System Functionality and Lack of Application Controls

Regarding management’s statements on the breakdowns in the functionality and application IT controls of the OnePhilly system, we have the following comments:

- In its response on page 36, management states the following: “Timekeepers go back in retro-effective time periods, perform necessary follow-ups, and update assumed time to reflect actual hours and submit and approve these changes.”

We note that, in a subsequent comment in its response on page 36, management states that the OnePhilly and Central Payroll Teams make changes to employee timecards, and not always “with documental approvals from departments.”

- In its response on page 36, management states the following with regard to the hours types available to employees and timekeepers:

Only relevant hours types are authorized for employees and timekeepers. The time types that timekeepers have access to are driven by both Department and Compulsory Union Code (CUC). Hours type should not be restricted at the department level. Hours types are driven by CUC and therefore, not all hours types are available for each employee. For example, Hazmat or Acting Out of Rank is available only for CUC 'F' or firefighters, and Stress Pay is available only for Police. All hours types are reviewed and approved by managers and timekeepers.

During the in-scope period, the independent accounting firm engaged by us to assess the OnePhilly system's IT application and general controls (our consultant) witnessed that employees and timekeepers could select from the full listing of hours types and submit time. It is our consultant's understanding that an initial system fix was implemented in November 2019.

- Regarding the Overpaid / Underpaid report, in its response on page 37, management states the following:

The team provided and demonstrated initial versions of the Overpaid/Underpaid reports during the walkthroughs. Those initial reports were fine-tuned and enhanced, as can be expected with any implementation, and this was communicated to the auditors. A team of payroll examiners conduct the review of the Overpaid/Underpaid reports. The statement that the 3,000-line report requires individual review is inaccurate.

Management's response confirms that these reports were not fully functioning during the in-scope period. Further, the fact that the 3,000-line report – which only relates to one payroll type, for one pay period – requires manual review is not disputed. It appears, consistent with the OnePhilly Team's remarks during the exit conference, that the OnePhilly Team has interpreted "individual review" to mean that one individual is responsible for reviewing the entire report.

Monitoring of OnePhilly Third Parties

With regard to management's statements on the monitoring of third parties who support the OnePhilly system, we have the following comments:

- In its response on page 39, management states the following with regard to the 2018 COMS SOC 2 report (the most recently available report), which is performed by an accounting firm that does not have offices in the United States (U.S.) and which is not noted to be part of a network of firms with a U.S. presence:

In this global and technologically enhanced world, an audit firm does not need to be located in the U.S. to perform its functions in accordance with U.S. Audit guidelines. Also, the auditor on this engagement is a U.S. registered CPA, and his team includes consultants from a PCAOB registered firm. The SOC report was created in AICPA format, and the auditors confirmed that their audit was conducted in accordance with AICPA standards. This fact is

also highlighted within the SOC report, both in the “Scope” and the “Service Auditor’s Responsibilities” sections.

Our consultant maintains that the 2018 COMS SOC 2 report was performed by an accounting firm that does not have offices in the U.S., and is not noted to be part of a network of firms with a U.S. presence.

- In its response on page 39, management states the following with regard to the lack of formal monitoring of the Service Level Agreement (SLA) between OnePhilly and Ciber:

There are numerous mechanisms in place to monitor SLA: Daily performance dashboard reports are sent to the OnePhilly team. Management reviews these automated system generated reports daily. There are also weekly PMO meetings scheduled and minutes to these meetings are maintained. Additional monthly SLA meetings are also conducted.

The OnePhilly Team has not provided our consultant with any evidence of the aforementioned daily reports or monthly SLA meetings.

Treasurer’s Failure to Provide Bank Reconciliations for Four Long Unreconciled Accounts

On page 15 of the report, we summarized a finding reported in the prior year as follows: “While Treasurer management asserted that four long unreconciled accounts had been fully reconciled, the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period.” In its response on page 41, management asserts, “We would like to note that CTO²¹ provided adequate alternative support for the 4 long unreconciled accounts, which included annual bank reconciliations instead of monthly reconciliations, and thus the statement that ‘the Treasurer was unable to provide bank reconciliations that covered a large portion of the unreconciled period’ is misleading.”

We disagree with management’s assertion. As stated in our prior year report, with regard to the four long unreconciled accounts, the Treasurer did not provide us with sufficient, documented evidence that they had performed bank reconciliations for all of the unreconciled months.²² In fact, Treasurer management informed us that they are unable to prepare those monthly bank reconciliations because either the bank and/or the supporting city records for those months are not available.

Cut-Off Period for Accounts Payable Reporting

Regarding the finding on deficiencies in accounts payable reporting, in its response on page 42, management states the following:

²¹ City Treasurer’s Office

²² The unreconciled months are listed on report page 17, footnote 11.

Our accounts payable cut-off timeline is based on our 120 days (after year end) timeline to complete the AFR²³ in compliance with the deadline mandated by Charter requirements. While improvements can be made if the auditors align their cut-off period with the cut-off period for Finance, we may continue to see discrepancies due to items such as late executed contracts and delayed invoices that hinder departments from providing such accounts payable details within our mandated timeline.

Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. In testing accounts payable as of June 30th (the city's fiscal year-end), we search for unrecorded liabilities by examining invoices paid in the subsequent fiscal year to identify payments for goods or services received on or before June 30th that were not accrued as payables. The cut-off period we use for this testing cannot be restricted to the Finance Office's cut-off period, especially when there is a risk of significant unrecorded payables as evidenced by the results of our current year testing, which found \$30.2 million of unrecorded accounts payable. When there is a risk of significant unrecorded payables, auditors should extend the cut-off period for unrecorded liabilities testing to as close as possible to the audit opinion date.

²³ Annual Financial Report